

INTEGRAL VISION INC  
Form 10-Q  
May 23, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2011  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

INTEGRAL VISION, INC.  
(Exact name of registrant as specified in its charter)

Michigan  
(State or other jurisdiction  
of incorporation or organization)

0-12728  
(Commission  
File Number)

38-2191935  
(I.R.S. Employer  
Identification No.)

49113 Wixom Tech Drive, Wixom, Michigan 48393  
(Address of principal executive offices) (Zip Code)

(248) 668-9230  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	..	Accelerated filer	..
Non-accelerated filer (Do not check if a smaller reporting company)	..	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

35,675,409 shares of common stock as of May 14, 2011.

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

.. Yes .. No

INTEGRAL VISION, INC.

FORM 10-Q Report  
March 31, 2011

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## Condensed Balance Sheets

## Integral Vision, Inc.

	March 31, 2011 (Unaudited)	December 31, 2010
	(in thousands)	
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$8	\$ 23
Accounts receivable	25	49
Inventories	215	213
Other current assets	81	93
<b>Total current assets</b>	<b>329</b>	<b>378</b>
<b>Property and equipment</b>		
Building improvements	4	4
Production and engineering equipment	357	357
Furniture and fixtures	80	80
Computer equipment	201	201
Marketing/demonstration equipment	139	139
	781	781
Less accumulated depreciation	692	670
<b>Net property and equipment</b>	<b>89</b>	<b>111</b>
<b>Other assets - net of accumulated amortization of \$1,586,000 for 2011 and \$1,583,000 for 2010</b>		
	40	43
	40	43
<b>Total assets</b>	<b>\$458</b>	<b>\$ 532</b>
<b>Liabilities and Stockholders' Deficit</b>		
<b>Current liabilities</b>		
Notes payable	\$2,501	\$ 2,462
Notes payable to related parties and directors	6,497	6,116
Loans payable	10	-
Loans payable officers	10	-
Accounts payable	199	221
Customer deposits	45	-
Accrued compensation and related costs	343	318
Accrued interest	445	354
Accrued interest related parties and directors	1,291	1,051
Accrued product warranty	64	87
Accrued sales commissions	48	48
Accrued professional services	68	79
Other accrued liabilities	12	18
Deferred revenue	346	346
<b>Total current liabilities</b>	<b>11,879</b>	<b>11,100</b>
<b>Commitments and contingencies (Note C and H)</b>		

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Stockholders' deficit

Preferred stock, 400,000 shares authorized; none issued	-	-
Common stock, without par value; 90,000,000 shares authorized; 35,675,409 shares issued and outstanding (35,675,409 in 2010)	54,021	54,020
Accumulated deficit	(65,442 )	(64,588 )
Total stockholders' deficit	(11,421 )	(10,568 )
Total liabilities and stockholders' deficit	\$458	\$ 532

The accompanying notes are an integral part of these financial statements.

## Condensed Statements of Operations (Unaudited)

## Integral Vision, Inc.

Three Months Ended March 31,  
2011                      2010  
(In thousands, except per share  
data)

<b>Revenues:</b>		
Net product sales	\$ 7	\$ 530
<b>Costs of sales:</b>		
Costs of sales for products	3	199
Depreciation and amortization	4	2
Total costs of sales	7	201
Gross margin	-	329
<b>Other costs and expenses:</b>		
Marketing	88	114
General and administrative	269	245
Engineering and development	164	183
Total other costs and expenses	521	542
Operating loss	(521 )	(213 )
Other income	-	2
Interest expense	(95 )	(73 )
Interest expense related parties and directors	(238 )	(171 )
Loss from operations before income taxes	(854 )	(455 )
Income taxes	-	-
Net loss	\$ (854 )	\$ (455 )
<b>Basic and diluted loss per share</b>		
	\$ (0.02 )	\$ (0.01 )
Weighted average number of shares outstanding of common stock and common stock equivalents, where applicable		
	35,675	30,990

The accompanying notes are an integral part of these financial statements.

Statements of Stockholders' Deficit (Unaudited)

Integral Vision, Inc.

	Number of Common Shares Outstanding (in thousands, except number of common shares outstanding)	Common Stock	Preferred Stock	Accumulated Deficit	Total
Balances at January 1, 2011	35,675,409	\$54,020	\$-	\$ (64,588 )	\$(10,568 )
Net loss for the period				(854 )	\$(854 )
Issuance of warrants for settlement of interest on Class 2 Notes (See Note C )	-	1	-	-	1
Balances at March 31, 2011	35,675,409	\$54,021	\$-	\$ (65,442 )	\$(11,421 )

The accompanying notes are an integral part of these financial statements.

## Condensed Statements of Cash Flows (Unaudited)

Integral Vision, Inc.

	Three Months Ended March 31	
	2011	2010
	(in thousands)	
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (854 )	\$ (455 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	22	22
Amortization	3	6
Gain on sale of equipment	-	(2 )
Warrants issued in settlement of interest	1	7
Warrants issued in settlement of interest to related parties	-	25
Share-based compensation	-	7
Issuance of Class 3 Notes in settlement of interest	-	51
Issuance of Class 3 Notes in settlement of interest to related parties	-	125
Changes in operating assets and liabilities:		
Accounts receivable	24	(32 )
Inventories	(2 )	(3 )
Other current assets	12	8
Accounts payable and other current liabilities	(37 )	(122 )
Accrued interest	331	-
Customer deposits	45	-
Deferred revenue	-	8
Net cash used in operating activities	(455 )	(355 )
<b>Cash Flows Provided By (Used In) Investing Activities:</b>		
Proceeds from sale of equipment	-	2
Additional patent expenditures	-	(2 )
Net cash used in investing activities	-	-
<b>Cash Flows Provided By (Used In) Financing Activities:</b>		
Proceeds from sale of Class 2 Notes	40	170
Proceeds from sale of Class 2 Notes to related parties	380	200
Proceeds from loans payable	10	-
Proceeds from loans payable officers	10	-
Proceeds from exercise of stock warrants	-	2
Net cash provided by financing activities	440	372
(Decrease) in cash	(15 )	17
Cash at beginning of year	23	28
Cash at end of year	\$ 8	\$ 45
<b>Supplemental cash flows information:</b>		
Interest paid	\$ -	\$ 14



The accompanying notes are an integral part of these financial statements.

## Notes to Condensed Financial Statements

The condensed financial statements in this report have been prepared by Integral Vision, Inc. (the “Company”) without audit, pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America for annual financial statements. These statements should be read in conjunction with the financial statements and notes for the year ended December 31, 2010, included in our Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on April 15, 2011.

The condensed financial statements in this report include all adjustments, consisting of only normal, recurring adjustments, that, in the opinion of management, are necessary for the fair presentation of results for these interim periods and in order to make the condensed financial statements not misleading.

The results of operations for the three-month period ended March 31, 2011 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2011.

### Note A – Nature of Business

Integral Vision, Inc. develops, manufactures, and markets flat panel display inspection systems to ensure product quality in the display manufacturing process. We primarily inspect Microdisplays and small flat panel displays, though the technology used is scalable to allow inspection of full screen displays and components. Our customers and potential customers are primarily large companies with significant investment in the manufacture of displays. Nearly all of our sales originate in the United States, Asia, or Europe. Our products are generally sold as capital goods. Depending on the application, display inspection systems have an indefinite life and are more likely to require replacement due to possible technological obsolescence than from physical wear.

### Note B - Summary of Significant Accounting Policies

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

#### Inventories

Inventories are stated at the lower of first-in, first-out (“FIFO”) cost or market. Cost is computed using currently adjusted standards which approximates actual costs on a FIFO basis. We assess the recoverability of all inventory to determine whether adjustments for impairment are required. At March 31, 2011 and December 31, 2010, inventories consisted of the following amounts (net of an obsolescence allowance of \$15,000 at March 31, 2011 and December 31, 2010):

	2011	2010
	(in thousands)	
Raw materials	\$ 82	\$ 80
Finished goods	133	133
	\$ 215	\$ 213

We periodically perform an analysis of our inventory to determine if its cost exceeds estimated net realizable value. Over the last several years, given the market conditions and the direction of the Company, we discontinued certain product lines and attempted to liquidate the remaining inventory related to those product lines.

#### Property and Equipment

Property and equipment are stated on the basis of cost. Inventory transferred to engineering equipment and/or marketing and demonstration equipment is transferred at historical cost. Expenditures for normal repairs and maintenance are charged to operations as incurred.

Depreciation is computed by the straight-line method based on the estimated useful lives of the assets (building improvements: over 5 years; production and engineering equipment: over 3 to 10 years; furniture and fixtures: over 5 to 10 years; computer equipment: over 3 to 10 years; and marketing and demonstration equipment: over 3 to 5 years).

#### Stockholder's Equity

On March 17, 2010, the Board of Directors changed the stated value of our common stock from \$0.20 to "no stated value". As a result, we reclassified \$47,528,000 of additional paid in capital to common stock.

As of March 31, 2011, we have 90,000,000 authorized shares of common stock of which 35,675,407 shares are issued and outstanding. We have commitments for rights to exercise warrants for 23,953,391 shares, to convert Class 3 Notes into 23,233,132 shares, and to exercise options for 6,260,000 shares of common stock. We also have 9,442,947 warrants for our common shares that are earned, but not issued, for a total commitment of 98,564,877 shares of common stock as of March 31, 2011. Based on the foregoing, we may be in default of our commitment to reserve adequate authorized shares of common stock for our outstanding commitments. The Board of Directors has proposed a reverse stock split to the shareholders which would resolve this issue .

#### Deferred Revenue

Deferred revenue represents amounts periodically invoiced for sales orders in excess of amounts recognized as revenues. Deferred revenue was \$346,000 both at March 31, 2011 and December 31, 2010.

#### Fair Value of Financial Instruments

Our financial instruments are cash and cash equivalents, accounts receivable, accounts payable, notes payable, and long-term debt. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values based on their short-term nature. The recorded values of notes payable and long-term debt approximate their fair values, as interest approximates market rates.

## Revenue Recognition

We recognize revenue in accordance with FASB ASC 605 “Revenue Recognition”, Staff Accounting Bulletin No. 101 (“SAB 101”), and Staff Accounting Bulletin No. 104 (“SAB 104”) “Revenue Recognition in Financial Statements”. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured.

We recognize revenue at the time of shipment for product sales where the customer’s acceptance criteria can be demonstrated as met prior to shipment and where title transfers on shipment. We recognize revenue at the time of final acceptance at the customer site when title does not transfer on shipment or if acceptance criteria at the customer site are substantially different than acceptance criteria for shipment. We recognize revenue for product sales with no specific customer acceptance criteria, including spare parts, on shipment. Revenue from service contracts is recognized over the term of the contract. Revenue is reported net of sales commissions which were \$1,000 and \$61,000 for the three month periods ended March 31, 2011 and 2010, respectively.

## Supplemental Disclosure of Non-cash Investing and Financing Activities

During 2010, we exchanged \$170,000 of Class 2 Notes for \$170,000 of Class 3 Notes.

During 2010, we issued \$176,308 of Class 3 Notes in settlement of interest.

## Common Stock Options

We account for our share-based compensation plans according to the provisions of FASB ASC Topic 718 “Stock Compensation”. Accordingly, compensation costs attributable to stock options or similar equity instruments granted are measured at the fair value at the grant date, and expensed over the expected vesting period. FASB ASC Topic 718 “Stock Compensation” requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

## Reclassifications

Certain amounts have been reclassified in prior periods’ statements to conform to the current period’s presentation.

## Contingencies and Litigation

We make an assessment of the probability of an adverse judgment resulting from current and threatened litigation. We accrue the cost of an adverse judgment if, in our estimation, an adverse settlement is probable and management can reasonably estimate the ultimate cost of such litigation. We had no such accruals at March 31, 2011 and December 31, 2010.

## Recently Issued Accounting Standards

### ASU 2010-17

Accounting Standards Update (“ASU”) 2010-17, “Revenue Recognition – Milestone Method,” provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases in a study or achieving a specific result from the research or development efforts. An

entity often recognizes these milestone payments as revenue in their entirety upon achieving the related milestone, commonly referred to as the milestone method. The amendments in ASU 2010-17 are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. We do not expect the adoption of the guidance in ASU 2010-17 to have any effect on our financial position, results of operations or cash flows

Note C - Long-Term Debt and Other Financing Arrangements

2011 Activity

As of January 1, 2011, we had \$3,624,172 of outstanding Class 2 Notes and 5,898,780 unissued warrants valued at \$29,615 as determined using the Black-Scholes option-pricing model. The Class 2 Notes are working capital notes secured by accounts receivable, inventory, and intellectual property and have been issued primarily to certain shareholders that are directors or beneficially own more than five percent of the outstanding shares of common stock of the Company (see Note D – Related Party Transactions). The Notes bear interest at 10%, payable at maturity of the note and earn warrants at the rate of five warrants per year per dollar invested. The warrants have an exercise price of \$0.15 per share of our common stock. The holder can elect to forgo warrants and earn an additional 2% interest. All notes are presently earning 10% interest and receiving warrants, except for \$854,737 which are earning interest at 12%. During the quarter ended March 31, 2011, we issued \$420,000 of Class 2 Notes. We also issued 49,315 warrants valued at \$533 as determined using the Black-Scholes option-pricing method. We had 9,442,947 accrued warrants that were earned but not issued as of March 31, 2011, valued at \$65,737 as determined using the Black-Scholes option-pricing model. All but \$290,000 of the Class 2 Notes matured prior to March 31, 2011; \$140,000 of these notes matured on April 30, 2011. All of the Class 2 Notes other than \$150,000 of these notes are currently in default. See Note J – Subsequent Events for recent activity associated with the maturity of Class 2 Notes.

As of January 1, 2011, we had \$4,953,633 of outstanding Class 3 Notes. Of these, \$3,671,642 bear interest at 8% and \$1,281,989 bear interest at 12%, payable January 1st and July 1st of each year. The Notes are secured by our intellectual property and have been issued primarily to certain shareholders that are directors or beneficially own more than five percent of the outstanding shares of common stock of the Company (see Note D – Related Party Transactions). Also, \$3,671,642 of the Notes are convertible into the Company's common stock at \$0.25 per share, and \$1,281,989 of the Notes are convertible into the Company's stock at \$0.15 per share. No new Class 3 Notes were issued during the quarter ended March 31, 2011. As of March 31, 2011, all but \$85,000 of the Class 3 Notes are in default. These \$85,000 of Class 3 note are due July 1, 2011. See Note J – Subsequent Events for recent activity associated with the maturity of Class 3 Notes.

The Company is in default under the terms of the Fifth Amended and Restated Note and Warrant Purchase Agreement (the "Agreement"), because it failed to make full payment of principal and interest on certain Class 2 and Class 3 Notes on their respective maturity dates. As of March 31, 2011, the outstanding principal and unpaid interest on the defaulted Class 2 and Class 3 Notes was \$10,286,401.

The Class 2 and Class 3 Notes are secured by the Company's intellectual property pursuant to a Collateral Assignment of Proprietary Rights and Security Agreement (the "Collateral Assignment"), and the Class 2 Notes are also secured by the Company's accounts receivable and inventory pursuant to a Security Agreement (the "Security Agreement").

The Class 2 and Class 3 Notes have begun to accrue interest at their default interest rates, which is equal to their respective interest rates plus an additional 4%. As such, \$3,149,436 of Class 2 Notes are currently accruing interest at the default rate of 14% and \$604,736 of Class 2 Notes are currently accruing interest at the default rate of 16%. Also, \$3,671,643 of Class 3 Notes are currently accruing interest at the default rate of 12% and \$1,196,989 of Class 3 Notes are currently accruing interest at the default rate of 16%.

Pursuant to the Collateral Assignment and the Security Agreement, the Class 2 and Class 3 Note holders (or the collateral agent acting on their behalf) have the right to foreclose on the collateral covered by such agreements, and exercise any of several remedies provided in such agreements, including taking possession of such collateral and selling such collateral. See Note J– Subsequent Events for recent activity associated with the Class 2 and Class 3 Notes.

The Company is in discussions with the note holders about curing or waiving the default. The note holders have continued to purchase new notes to provide additional funding to the Company after the default. See Note J – Subsequent Events for information on note activity since March 31, 2011.

The following table summarizes Class 2 Note activity for the three month period ended March 31, 2011:

	Notes Issued for Cash	Class 3 Notes Issued for Class 2 Note Payment	Cash Redemption	Notes Issued for Interest Payment	Class 2 Note Balance	Warrants Issued for Interest
Balance December 31, 2010	\$ -	\$ -	\$ -	\$ -	\$ 3,624,172	\$ -
Quarter Ended March 31, 2011	420,000	-	-	-	420,000	533
Balance March 31, 2011	\$ 420,000	\$ -	\$ -	\$ -	\$ 4,044,172	\$ 533

The following table summarizes Class 3 Note activity for the three month period ended March 31, 2011:

	Notes Issued For Cash	Exchange of Class 2 Note and Related Interest	Cash Redemption	Notes Issued For Interest	Class 3 Note Balance
Balance December 31, 2010	\$ -	\$ -	\$ -	\$ -	\$ 4,953,633
Quarter Ended March 31, 2011	-	-	-	-	-
Balance March 31, 2011	\$ -	\$ -	\$ -	\$ -	\$ 4,953,633

During the Quarter ended March 31, 2011 we received unsecured, non-interest bearing loans of \$10,000 from certain Officers of the Company. The loans do not have repayment terms but are intended to be short term.

We also received an unsecured, non-interest bearing loan of \$10,000 from a current Note Holder. The loan does not have repayment terms but is considered to be short term.

## 2010 Activity

As of January 1, 2010, we had \$2,855,112 of outstanding Class 2 Notes. The Class 2 Notes are working capital notes secured by accounts receivable, inventory, and intellectual property and have been issued primarily to certain shareholders that are directors or beneficially own more than five percent of the outstanding shares of common stock of the Company (see Note D – Related Party Transactions). The Notes bear interest at 10%, payable at maturity of the note and earn warrants at the rate of five warrants per year per dollar invested. The warrants have an exercise price of \$0.15 per share of our common stock. The holder can elect to forgo warrants and earn an additional 2% interest. All notes are presently earning 10% interest and receiving warrants, except for \$475,000 which are earning interest at 12%. During the quarter ended March 31, 2010, we issued \$370,000 of Class 2 Notes and we paid \$170,000 of Class 2 Notes by issuing Class 3 Notes. We also issued 3,700,363 warrants valued at \$32,843 as determined using the Black-Scholes option-pricing model. During the quarter ended September 30, 2010, we issued \$435,600 of new Class 2 Notes and we paid \$50,950 to retire a Class 2 Note. We also issued 8,509,560 warrants valued at \$104,936. During the quarter ended December 31, 2010, we issued \$391,784 of new Class 2 Notes and we paid \$207,374 to retire Class 2 Notes. We had 5,898,780 accrued warrants that were earned but not issued as of December 31, 2010, valued at \$29,615 as determined using the Black-Scholes option-pricing model. All but \$300,000 of the Class 2 Notes matured prior to December 31, 2010 of which \$30,000 matured on January 10, 2010, \$145,000 matured on January 31, 2011, and \$125,000 matured on March 1, 2011. All of the Class 2 Notes issued prior to December 31, 2010 are currently in default. See Note J – Subsequent Events for recent activity associated with the maturity of Class 2 Notes.

As of January 1, 2010, we had \$4,522,000 of outstanding Class 3 Notes. Of these, \$3,671,642 bear interest at 8% and \$850,861 bear interest at 12%, payable January 1st and July 1st of each year. The Notes are secured by our intellectual property and have been issued primarily to certain shareholders that are directors or beneficially own more than five percent of the outstanding shares of common stock of the Company. Also, \$3,671,642 of the Notes are convertible into the Company's common stock at \$0.25 per share, and \$850,681 of the Notes are convertible into the Company's stock at \$0.15 per share. During the quarter ended March 31, 2010, we issued \$176,308 of Class 3 Notes bearing 12% interest and convertible at \$0.15 per share for the payment of interest, and \$170,000 of Class 3 Notes bearing 12% interest and convertible at \$0.15 per share for the payment of Class 2 Notes. During the quarter ended June 30, 2010, we issued \$85,000 of Class 3 Notes bearing 12% interest and convertible at \$0.15 per share for cash which mature on July 1, 2011. All other Class 3 Notes matured on October 1, 2010, and are currently in default. No new Class 3 Notes were issued during the quarter ended December 31, 2010. See Note J – Subsequent Events for recent activity associated with the maturity of Class 3 Notes. As of December 31, 2010, the outstanding principal and unpaid interest on the Class 2 and Class 3 Notes was \$9,508,000.



The following table summarizes Class 2 Note activity for the year ended December 31, 2010:

	Notes Issued for Cash	Class 3 Notes Issued for Class 2 Note Payment	Cash Redemption	Notes Issued for Interest Payment	Class 2 Note Balance	Warrants Issued for Interest
Balance January 1, 2010	\$ -	\$ -	\$ -	\$ -	\$ 2,855,112	\$ -
Quarter Ended March 31, 2010	370,000	(170,000 )	-	-	200,000	32,843
Quarter Ended June 30, 2010	-	-	-	-	-	-
Quarter Ended September 30, 2010	435,600	-	(50,950 )	-	384,650	104,936
Quarter Ended December 31, 2010	391,784	-	(207,374 )	-	184,410	-
Balance December 31, 2010	\$ 1,197,384	\$ (170,000 )	\$(258,324 )	\$ -	\$ 3,624,172	\$ 137,779

The following table summarizes Class 3 Note activity for the year ended December 31, 2010:

	Notes Issued For Cash	Exchange of Class 2 Note and Related Interest	Cash Redemption	Notes Issued For Interest	Class 3 Note Balance
Balance January 1, 2010	\$ -	\$ -	\$ -	\$ -	\$ 4,522,325
Quarter Ended March 31, 2010	-	170,000	-	176,308	346,308
Quarter Ended June 30, 2010	85,000	-	-	-	85,000
Quarter Ended September 30, 2010	-	-	-	-	-
Quarter Ended December 31, 2010	-	-	-	-	-
Balance December 31, 2010	\$ 85,000	\$ 170,000	\$ -	\$ 176,308	\$ 4,953,633

The aggregate amount of outstanding Class 2 and Class 3 Notes is \$8,997,805 as of March 31, 2011.

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A summary of the Company's debt obligations is as follows as of March 31, 2011 and December 31, 2010:

	2011	2010
	(in thousands)	
<b>Short Term Notes Payable:</b>		
Class 2 Notes	\$ 4,044	\$ 3,624
Class 3 Notes	4,954	4,954
Net Short Term Notes Payable	\$ 8,998	\$ 8,578

See Note J – Subsequent Events for recent activity associated with Class 2 and Class 3 Notes.

Note D - Related Party Transactions

The portion of debt described in Note C above that has been issued to Directors and to certain shareholders that own more than five percent (5%) of the outstanding shares of common stock of the Company is disclosed in the table below.

	Greater than 5% shareholder John Hunter	John R. Kiely, III.	Director Max A. Coon	Total
<b>Outstanding balance as of December 31, 2010</b>				
Class 2 Notes	\$ 1,781,112	\$ 1,100,695	\$ 125,000	
Class 3 Notes	\$ 1,490,167	\$ 1,321,844	\$ 298,161	
Total	\$ 3,271,279	\$ 2,422,539	\$ 423,161	\$ 6,116,979

Aggregate amount of transactions  
(See "Related Party Transaction  
Detail" table below)

2011	\$ -	\$ 380,000	\$ 0	
2010	\$ -	\$ -	\$ 0	

Outstanding balance as of March 31,  
2011

Class 2 Notes	\$ 1,781,112	\$ 1,480,694	\$ 125,000	
Class 3 Notes	\$ 1,490,167	\$ 1,321,844	\$ 298,161	
Total	\$ 3,271,279	\$ 2,802,538	\$ 423,161	\$ 6,496,978

Amount of principal paid during  
period

2011	\$ -	\$ -	\$ -	
2010	\$ -	\$ -	\$ -	

Amount of interest paid during period

Cash 2011	\$ -	\$ -	\$ -	\$ -
<b>Notes issued in payment of interest</b>				
2011	\$ -	\$ -	\$ -	
Value of warrants issued 2011	\$ -	\$ -	\$ -	
Total 2011	\$ -	\$ -	\$ -	\$ -
Cash 2010	\$ 2,000	\$ -	\$ -	

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Notes issued in payment of interest				
	2010	\$ 60,106	\$ 53,340	\$ 12,043
Value of warrants issued	2010	\$ 11,099	\$ 12,465	\$ 2,447
	Total 2010	\$ 73,205	\$ 65,805	\$ 14,490
				\$ 153,500
Accrued interest at March 31				
	Cash 2011	\$ 686,795	\$ 450,595	\$ 98,721
Value of warrants accrued not issued	2011	\$ 36,962	\$ 14,937	\$ 2,551
	Total 2011	\$ 723,757	\$ 465,532	\$ 101,272
				\$ 1,290,561
	Cash 2010	\$ 294,460	\$ 205,117	\$ 51,360
Value of warrants accrued not issued	2010	\$ 86,838	\$ -	\$ 11,595
	Total 2010	\$ 381,298	\$ 205,117	\$ 62,955
				\$ 649,370

Interest expense for the period ended March 31, 2011 was \$333,000, for which \$220,275 and \$15,318 were for related parties and Directors, respectively. Interest expense for the period ended March 31, 2010 was \$244,000, for which \$157,408 and \$13,746 were for related parties and Directors, respectively.

For more information on Class 2 and Class 3 notes, see Note C – Long Term Debt and Other Financing.

Note E - Income Taxes

Income Taxes

In accordance with FASB ASC Topic 740 “Income Taxes,” we assess our uncertain tax positions for tax years that are still open for examination. Because of our historical significant net operating losses, we have not been subject to income tax since 1995. There were no unrecognized tax benefits during all of the periods presented. We classify all interest and penalties as income tax expense. We did not have any accrued interest and penalties related to uncertain tax positions as of December 31, 2010. We file income tax returns in the United States federal jurisdiction and various state jurisdictions. The tax years 2007 through 2010 remain open to examination by taxing jurisdictions to which we are subject. As of March 31, 2011, we did not have any tax examinations in process.

Deferred tax assets and liabilities are measured based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before we are able to realize their benefit, or future deductibility is uncertain. All deferred tax assets are fully offset by a valuation allowance because of our history of losses.

Note F – Loss per Share

The following table sets forth the computation of basic and diluted loss per share:

	Three Months Ended March 31,	
	2011	2010
	(Unaudited)	
	(in thousands, except per share data)	
<b>Numerator for basic and diluted loss per share - loss available to common stockholders</b>		
Net loss	\$ (854 )	\$ (455 )
*there was no effect of dilutive securities, see below		
<b>Denominator for basic and diluted loss per share - weighted average shares</b>		
	35,675	30,990
*there was no effect of dilutive securities, see below		
<b>Basic and diluted loss per share:</b>		
Net loss	\$ (0.02 )	\$ (0.01 )

Warrants and options outstanding were not included in the computation of diluted earnings per share because the inclusion of these instruments would have an anti-dilutive effect. For additional disclosures regarding stock options and warrants, see Note G – Share-Based Compensation.

Note G – Share-Based Compensation

We currently have two active stock option plans: the 2004 Employee Stock Option Plan (“2004 Plan”) and the 2008 Integral Vision, Inc. Equity Incentive Plan (“2008 Plan”) (collectively the “Plans”). The purpose of the Plans generally is to retain and attract persons of appropriate education, experience and ability to serve as our employees, to encourage a sense of proprietorship of such persons, and to stimulate an active interest in our development and financial success.

The Plans are designed to promote the interests of the Company and its shareholders by providing a means by which the Company can grant equity-based incentives to eligible employees of the Company or any Subsidiary as well as non-employee directors, consultants, or advisors who are in a position to contribute materially to the Company’s success. The Plans permit the Compensation Committee of the Company’s Board of Directors to grant Incentive Stock Options and Non-Qualified Stock Options (and the 2008 Plan permits grants of Restricted Stock and Shares as well). The maximum number of shares cumulatively available under the 2004 Plan is 1,000,000 shares. The maximum number of shares cumulatively available under the 2008 Plan is 14,000,000 plus (i) any shares that are forfeited or remain unpurchased or undistributed upon termination or expiration of the awards from the Plan or options from the 2004 Plan and (ii) any shares exchanged as full or partial payment for the exercise price of any award under the 2008 Plan.

On March 24, 2009, on the recommendation of the Compensation Committee, the Board of Directors approved amending and restating the 2008 Plan to provide for an additional 2,500,000 shares for awards under the Plan of which an additional 1,500,000 may be awarded over the two year period beginning March 24, 2009 to the Company’s Chief Executive Officer. The shareholders approved the amendment and restatement at the annual shareholders meeting held May 20, 2009. As of December 31, 2009, 2,328,000 Stock Option shares and 1,300,000 Restricted Shares have been granted from the 2008 Equity Incentive Plan leaving a balance of 3,700,000 shares available for future grants.

Effective April 19, 2010, and pending shareholder approval, the Board increased the maximum number of cumulative shares available under the 2008 Plan to 14,000,000 plus (i) any shares that are forfeited or remain un-purchased or undistributed upon termination or expiration of the awards from the 2008 Plan or options from the 2004 Plan and (ii) any shares exchanged as full or partial payment for the exercise price of any award under the 2008 Plan. As of March 31, 2011, and assuming shareholder ratification of the Board’s action, 6,572,000 shares remain which can be issued under the 2008 Plan.

The Plans are administered by the Compensation Committee of the Board of Directors (the “Committee”). The Committee determines which eligible employees will receive awards, the timing and manner of the grant of such option awards, the exercise price of the stock options (which may not be less than market value on the date of grant) and the number of shares. We may at any time amend or terminate the Plans, however no amendment that would impair the rights of any participant with respect to outstanding grants can be made without the participant’s prior consent.

The Compensation Committee of the Board of Directors did not grant any options or shares to employees during the first quarter of 2011 or 2010.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of all awards is amortized on a straight line basis over the requisite service periods. The expected life of all awards granted represents the period of time that they are expected to be outstanding. The expected life is determined using historical and other information available at the time of grant. Expected volatilities are based on historical volatility of our common stock, and other factors. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. No dividends are expected to be paid. We use historical data to estimate pre-vesting option forfeitures.

As of March 31, 2011 and March 31, 2010 there were no unamortized option awards or stock grants outstanding.

A summary of option activity under all Plans for the quarters ended March 31, 2011, and 2010 follows:

	2011		2010	
	Shares	Weighted Average Exercise Price (number of shares in thousands)	Shares	Weighted Average Exercise Price
Outstanding at January 1	6,260	\$ 0.06	3,785	\$ 0.23
Granted	0	0.00	0	0.00
Exercised	0	0.00	0	0.00
Expired	0	0.00	0	0.00
Outstanding at December 31 (\$0.04 to \$0.30 per share)	6,260	\$ 0.06	3,785	\$ 0.23
Exercisable (\$0.04 to \$0.30 per share)	6,260	\$ 0.06	3,661	\$ 0.23

A summary of the status of our nonvested shares as of March 31, 2011 and 2010, and changes during quarters ended March 31, 2011, and March 31, 2010, is presented below:

	2011		2010	
	Shares	Weighted Average Grant- Date Fair Value	Shares	Weighted Average Grant- Date Fair Value
Nonvested at January 1	64,000	\$ 4.00	590,000	\$ 0.25
Granted	0	0.00	0	0.00
Exchanged	0	0.00	0	0.00
Vested	(64,000 )	0.04	(466,000 )	0.26
Nonvested at March 31	0	\$ 0.04	124,000	\$ 0.22

No options were granted in the quarters ended March 31, 2010 or 2011.

The following table summarizes share-based compensation expense for the quarters ended March 31, 2011 and 2010 related to share-based awards under FASB ASC Topic 718 "Stock Compensation" as recorded in the Statements of Operations in the following expense categories:

	2011	2010
	(in thousands)	
Marketing	\$ -	\$ 2
Engineering and Development	-	3
General and Administrative	-	2
Total share-based compensation expense	\$ -	\$ 7

As of March 31, 2011, we had no unrecognized expense related to un-vested share-options.

Additional information regarding the range of exercise prices and weighted average remaining life of options outstanding at March 31, 2011 and 2010 follows:

Range of Exercise Prices	2011		2010			
	Number Outstanding (number of shares in thousands)	Weighted Average Remaining Life	Number Exercisable	Number Outstanding	Weighted Average Remaining Life	Number Exercisable
\$0.04 to \$0.07	5,776	9.0	5,776			
\$0.10 to \$0.24	484	3.4	484	3,785	7.7	3,661
Totals	6,260	8.6	6,260	3,785	7.7	3,661

A summary of the outstanding warrants, options, and shares available upon the conversion of debt at March 31, 2011 and 2010 is as follows:

	2011				2010			
	Weighted Average Exercise Price	Number Outstanding (number of shares in thousands)	Weighted Average Remaining Life	Number Exercisable	Weighted Average Exercise Price	Number Outstanding (number of shares in thousands)	Weighted Average Remaining Life	Number Exercisable
PIPE Warrants	\$0.001	7,000	2.46	7,000	\$0.001	8,650	2.81	8,650
Class 2 Note Warrants	\$0.162	16,953	2.85	16,953	\$0.170	8,316	3.30	8,316
Class 3 Convertible Notes	\$0.213	23,233	-	23,233	\$0.220	22,666	0.25	22,666
1995 Employee Stock Option Plan	\$0.170	184	0.71	184	\$0.170	184	1.71	184
1999 Employee Stock Option Plan	\$0.170	290	4.94	290	\$0.170	290	5.94	290
2004 Employee Stock Option Plan	\$0.067	1,000	9.02	1,000	\$0.250	983	7.88	983
2008 Equity Compensation Plan	\$0.052	4,786	8.96	4,786	\$0.240	2,328	8.30	2,204
	\$0.152	53,446	2.23	53,446	\$0.168	43,417	1.99	43,293

Note H – Contingencies and Litigation

Product Warranties

We provide standard warranty coverage for most of our products, generally for one year from the date of customer acceptance. We record a liability for estimated warranty claims based on historical claims and other factors. We review these estimates on a regular basis and adjust the warranty reserves as actual experience differs from historical estimates or other information becomes available. This warranty liability primarily includes the anticipated cost of materials, labor and travel, and shipping necessary to repair and service the equipment.

The following table illustrates the changes in our warranty liability for the quarters ended March 31, 2011 and 2010:

	Amount 2011	Amount 2010
(in thousands)		
Balance as of January 1	\$ 87	\$ 108
Product warranties issued	-	28
Estimate changes for preexisting warranties	(23 )	-
Payments made	-	(3 )
Balance as of March 31	\$ 64	\$ 133

Note I – Going Concern Matters



The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, we incurred losses in the first three months of 2011 and 2010 of \$854,000 and \$455,000, respectively. Additionally, we incurred losses from operations in the years of 2010 and 2009 of \$2.4 million and \$2.7 million, respectively. The continuing losses raise substantial doubt about our ability to continue operating as a going concern..

We are currently working with a number of large customers who are using our technologies to evaluate their microdisplay production or are evaluating our technology for the inspection of LCD displays and components. We expect that additional sales orders will be placed by these customers throughout 2011 and into 2012 provided that markets for these products continue to grow and the customers continue to have interest in our technology-assisted inspection systems. Ultimately, our ability to continue as a going concern will be dependent on these large companies getting their emerging display technology products into high volume production and placing sales orders with us for inspection products to support that production. However, there can be no assurance that we will be successful in securing sales orders sufficient to continue operating as a going concern.

From November 2006 through May 19, 2011, we have used \$9,137,805 of Class 2 and Class 3 Notes to fund operations. \$4,953,633 of these are Class 3 Notes, all but \$85,000 of which are in default. \$4,184,172 are Class 2 Notes, all but \$290,000 of which are in default as of May 1, 2011. We will need to negotiate forbearance or a cure of the defaults and raise additional funds for operations in the second quarter of 2011. Current note holders have continued to fund operations while their notes are in default, but the limited basis of the funding is causing us to fall behind with vendors not essential to our daily operations or production. We currently have \$98,896 over 90 days in accounts payable as of March 31, 2011. Taking into account anticipated orders, we expect that we will need to raise an additional \$900,000 of operating capital to ramp up production and support over the next 12 months. If the anticipated orders do not materialize as expected, we will need to raise up to \$2,500,000 to fund operations through the second quarter of 2012 and continue to defer interest and principle payments on existing debt to continue to fund operations. These levels of required capital may be beyond the means of existing noteholders and would cause us to seek new investors, which could result in a restructuring of current positions.

For further information regarding our obligations, see Note C – Long Term Debt and Other Financing Arrangements and Note J – Subsequent Events.

The financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

#### Note J – Subsequent Events

On April 19, 2011, we sold an additional \$40,000 of Class 2 Notes earning interest at 12% and maturing on May 31, 2011 to a related party.

On April 20, 2011, we sold an additional \$50,000 of Class 2 Notes earning interest at 12% and maturing on May 31, 2011 to a related party.

On April 25, 2011, we sold an additional \$40,000 of Class 2 Notes earning interest at 10%, maturing on June 30, 2011 and issued 16,438 of related warrants.

On May 5, 2011, we sold an additional \$10,000 of Class 2 Notes earning interest at 10%, maturing on August 3, 2011 and issued 12,328 of related warrants.

These transactions bring the aggregate amount of outstanding Class 2 and Class 3 Notes to \$9,137,805 as of May 20, 2011.

On April 30, 2011, we defaulted on an additional \$140,000 of Class 2 Note principal and \$3,038 of interest. This brings the total defaulted Class 2 Note principal to \$3,894,172. The amount of interest due on the defaulted Class 2 Notes at April 30, 2011 is \$1,007,745. See our Form 8-K filed with the SEC on October 6, 2010 for more information regarding the terms of the defaulted Notes.

As of May 12, 2011, noteholders for \$2,848,569 of outstanding Class 2 Notes ceased warrant accrual for their notes.

On May 17, 2011, noteholders for approximately 90% of the outstanding Class 2 Notes extended the maturity date of their defaulted notes to July 1, 2013, and waived any Default Interest payments due on said notes retroactively from September 30, 2010 to May 17, 2011. The approximate amount of waived interest is \$80,000.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward - Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, risks and uncertainties. Generally, the words "anticipate", "expect", "intend", "believe" and similar expressions identify forward-looking statements. The information included in this Form 10-Q is as of the filing date with the Securities and Exchange Commission and future events or circumstances could differ significantly from the forward-looking statements included herein. Accordingly, we caution readers not to place undue reliance on such statements.

### Overview

Integral Vision, Inc., a Michigan corporation (or the "Company"), was incorporated in 1978. We develop, manufacture and market flat panel display inspection systems to ensure product quality in the display manufacturing process. We primarily inspect microdisplays and small flat panel displays, though the technology used is scalable to allow inspection of full screen displays and components. Our products primarily use machine vision to evaluate operating displays for cosmetic and functional defects, but can also provide electrical testing if required for a given application. Our customers and potential customers are primarily large companies with significant investments in the manufacture of displays. Nearly all of our sales originate in the United States, Asia, or Europe. Our products are generally sold as capital goods. Depending on the application, display inspection systems have an indefinite life and are more likely to require replacement due to possible technological obsolescence than from physical wear.

Automated inspection has become a necessity for manufacturers who need to continually improve production efficiency to meet the increasing demand for high quality products. Our automatic inspection systems can inspect parts at a lower cycle time and with greater repeatability than is possible with human inspectors. While we have several large companies as customers, these customers are working with emerging display technologies. Our success will be substantially dependant on these customers getting their emerging display technologies into high volume production.

## Products

Our products are generally sold under the trade name SharpEye™. SharpEye™ systems provide Flat Panel Display (“FPD”) inspection for reflective, emissive and transmissive display technologies. SharpEye is designed for the detection of functional and cosmetic defects in Liquid Crystal Display (LCD) displays as well as Liquid Crystal on Silicon (LCoS), OLED, Microelectromechanical systems (MEMS), 3LCD/High Temperature Poly-Silicon (HTPS), e-paper and other emerging display technologies. These technologies are applied to consumer products including a broad range of hand held devices, e-books, computer monitors, digital still cameras, HDTV, projectors, and video headsets. The core technology of SharpEye™ inspection algorithms is the ability to quantize data to the level of a single display pixel. SharpEye™ can be configured for production inspection or for display evaluation in a laboratory based on the equipment configuration selected.

## Results of Operations

### Three Months Ended March 31, 2011 Compared with Three Months Ended March 31, 2010

Net revenues decreased \$523,000 (98.7%) to \$7,000 in the first quarter of 2011 from \$530,000 in the first quarter of 2010. The decrease in net revenue was primarily attributable to a decrease in revenue from sales of our flat panel display inspection products which have a long sales cycle, in the first quarter of 2011. We had \$346,000 in deferred revenue at March 31, 2011 which could not be recognized because final acceptance had not been received from the customer.

Costs of sales decreased \$194,000 (96.5%) to \$7,000 (100% of sales) in the first quarter of 2011 compared to \$201,000 (38% of sales) in the first quarter of 2010. This was primarily due to a decrease in material costs of \$143,000 as a result of the lower sales of flat panel display inspection systems and a decrease of \$51,000 in our accrued warranty in the 2011 period.

Marketing costs decreased \$26,000 (22.8%) to \$88,000 in the first quarter of 2011 compared to \$114,000 in the first quarter of 2010. This decrease was attributable to reduced compensation, related benefits and travel costs.

General and administrative (“G&A”) costs increased \$24,000 (9.8%) to \$269,000 in the first quarter of 2011 compared to \$245,000 in the first quarter of 2010. The increase was a result of an increase in professional fees of \$53,000 which were offset by decreases in personnel costs of \$22,000 and decreases in other general costs of approximately \$7,000.

Engineering and development expenditures decreased \$19,000 (10.4%) to \$164,000 in the first quarter of 2011 compared to \$183,000 in the first quarter of 2010. The decrease was primarily a result of decreases in personnel and travel costs off set by an increase in contract engineering costs of \$8,000.

Other income for the three months ended March 31, 2011 was comparable to the three months ended March 31, 2010.

Interest expense increased \$89,000 to \$330,000 for the quarter ended March 31, 2011 compared to \$244,000 for the quarter ended March 31, 2010. The increase is primarily attributable to the issuance of additional Class 2 and Class 3 Notes and the additional interest that resulted from the default on Class 2 and Class 3 Notes which occurred on September 30, 2010 and October 1, 2010.

#### Liquidity and Capital Resources

Net cash used in operating activities was \$455,000 for the three months ended March 31, 2011, compared to \$355,000 for the first three months of 2010. Operating cash flow for both periods primarily reflected net losses of \$854,000 for 2011 and \$455,000 for 2010 adjusted for non-cash charges and changes in working capital. Working capital changes in the first three months of 2011 primarily reflected a decrease in accounts receivable and other current assets as a result of our limited sales volume. We realized a decrease in accounts payable and other current liabilities as a result of payments made. Accrued interest increased as a result of the issuance of additional debt and the default interest rate in effect on the defaulted Class 2 and Class 3 Notes. Customer deposits increased as a result of sales orders received. Working capital changes in the first three months of 2010 primarily reflected increases in accounts receivable and inventories as a result of increased sales orders and other current assets decreased as a result of normal amortization. Accounts payable and other current liabilities decreased as a result of payments. Accrued interest increased as result of the issuance of additional debt and customer deposits decreased as a result of customer orders being processed.

Our investing activities for the three months ended March 31, 2011 did not reflect any activity. Investing activities for the three months ended March 31, 2010 included an increase in patents of \$2,000 offset by \$2,000 in proceeds from the sale of equipment.

The Company does not have any commitments for capital expenditures as of March 31, 2011.

Financing activities for the three months ended March 31, 2011 included proceeds of \$420,000 from the issuance of Class 2 Notes and proceeds of \$20,000 from loans payable. Our financing activities for the three months ended March 31, 2010 included proceeds of \$370,000 from the issuance of Class 2 Notes and proceeds of \$2,000 from the exercise of warrants. We paid no interest on Class 3 Notes during the three-month period ended March 31, 2011 and \$14,000 during the three-month period ended March 31, 2010.

During the quarter ended March 31, 2010, we issued \$176,308 of Class 3 Notes for the payment of interest, and \$170,000 of Class 3 Convertible Notes for the payment of Class 2 Notes.

The Company is in default under the terms of the Fifth Amended and Restated Note and Warrant Purchase Agreement (the "Agreement"), because it failed to make full payment of principal and interest on certain Class 2 and Class 3 Notes on their respective maturity dates. The Class 2 Notes matured on September 30, 2010, while the Class 3 Notes matured on October 1, 2010.

The Class 2 and Class 3 Notes are secured by the Company's intellectual property pursuant to a Collateral Assignment of Proprietary Rights and Security Agreement (the "Collateral Assignment"), and the Class 2 Notes are also secured by the Company's accounts receivable and inventory pursuant to a Security Agreement (the "Security Agreement").

The Class 2 and Class 3 Notes have begun to accrue interest at their default interest rates, which is equal to their respective interest rates plus an additional 4%. As such, certain Class 2 Notes are currently accruing interest at the default rate of 14% and other Class 2 Notes at the default rate of 16%. Also, certain Class 3 Notes are currently accruing interest at the default rate of 12% and other Class 3 Notes at the default rate of 16%.



Pursuant to the Collateral Assignment and the Security Agreement, the Class 2 and Class 3 Note holders (or the collateral agent acting on their behalf) have the right to foreclose on the collateral covered by such agreements, and exercise any of several remedies provided in such agreements, including taking possession of such collateral and selling such collateral.

The Company's default under the terms of the Agreement may result in the Company's liquidity decreasing in a material way. In order to remedy any potential decrease in liquidity, if the existing note holders do not continue to purchase new notes to provide additional funding for operations and if we are unable to obtain acceptable terms for curing or waiving the default and obtaining new financing, we may not have sufficient cash to operate. See Note J – Subsequent Events to our Condensed Financial Statements for information on note activity since March 31, 2011.

For further discussion regarding our obligations, see Note C – Long Term Debt and Other Financing Arrangements and Note J – Subsequent Events to our Condensed Financial Statements.

#### Management's Discussion of Critical Accounting Policies

Our condensed financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting policies discussed below are considered by management to be the most important to an understanding of our financial statements, because their application places the most significant demands on management's judgment and estimates about the effect of matters that are inherently uncertain. Our assumptions and estimates were based on the facts and circumstances known at March 31, 2011; future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. These policies are also described in Note B of the Condensed Financial Statements included in this Form 10-Q.

#### Revenue Recognition

We recognize revenue in accordance with ASC 605 "Revenue Recognition", and Staff Accounting Bulletin No. 101 ("SAB 101"), and Staff Accounting Bulletin No. 104 ("SAB 104") Revenue Recognition in Financial Statements. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable and collectability is reasonably assured.

We recognize revenue at the time of shipment for product sales where the customer's acceptance criteria can be demonstrated as met prior to shipment and where title transfers on shipment. We recognize revenue at the time of final acceptance at the customer site when title does not transfer on shipment or if acceptance criteria at the customer site are substantially different than acceptance criteria for shipment. We recognize revenue for product sales with no specific customer acceptance criteria, including spare parts, on shipment. Revenue from service contracts is recognized over the term of the contract. Revenue is reported net of sales commissions.

#### Inventories

Inventories are stated at the lower of standard cost, which approximates actual cost determined on a first-in, first-out basis, or market. Inventories are recorded net of allowances for unsalable or obsolete raw materials, work-in-process and finished goods. We evaluate on a quarterly basis the status of our inventory to ensure the amount recorded in our financial statements reflects the lower of our cost or the value we expect to receive when we sell the inventory. This estimate is based on several factors, including the condition and salability of our inventory and the forecasted demand for the particular products incorporating these components. Based on current backlog and expected orders, we forecast the upcoming usage of current stock. We record reserves for obsolete and slow-moving parts ranging from 0% for active parts with sufficient forecasted demand up to 100% for excess parts with insufficient demand or obsolete parts. Amounts in work-in-process and finished goods inventory typically relate to firm orders and, therefore, are not subject to obsolescence risk.

#### Impairment of Long-lived Assets

We review our long-lived assets, including property, equipment and intangibles, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than the carrying amount of the asset.

#### Share Based Compensation

We account for our share based compensation plans according to the provisions of ASC 718 "Stock Based Compensation". Accordingly, compensation costs attributable to stock options or similar equity instruments granted are measured at the fair value at the grant date and expensed over the expected vesting period.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of all awards is amortized on a straight-line basis over the requisite service periods. The expected life of all awards granted represents the period of time that they are expected to be outstanding. The expected life is determined using historical and other information available at the time of grant. Expected volatilities are based on historical volatility of our common stock, and other factors. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. We use historical data to estimate pre-vesting option forfeitures.

#### Contingencies and Litigation

We make an assessment of the probability of an adverse judgment resulting from current and threatened litigation. We accrue the cost of an adverse judgment if, in management's estimation, an adverse settlement is probable and management can reasonably estimate the ultimate cost of such litigation. We have made no such accruals as of March 31, 2011 and 2010.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

This Item 3 is not applicable to us as, pursuant to Item 305(e) of Regulation S-K, a smaller reporting company is not required to provide the information required by Item 305 of Regulation S-K.

#### Item 4. Controls and Procedures

The Company's chief executive officer and chief financial officer have each reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report as required by Exchange Act Rules 13a-15(b) and 15d-15(b). Based on that evaluation, on March 31, 2011, the chief executive officer and chief financial officer each concluded that the Company's current disclosure controls and procedures are effective. Disclosure controls and procedures include,



without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Controls Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's first quarter of the fiscal year 2011 that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On March 4, 2011, we sold \$40,000 of Class 2 Notes and issued 49,315 warrants exercisable into our common stock to Susan W. Pillsbury 1998 Revocable Trust dtd 03/13/98 for cash. This transaction is exempt from registration under Section 4(2) of the Securities Act. The warrants are exercisable for \$0.15 per share of our common stock and expire on March 4, 2015.

### Item 3. Defaults Upon Senior Securities

See Note C – Long Term Debt and Other Financing Arrangements, Note I – Going Concern Matters and Note J – Subsequent Events of our condensed financial statements in Part I of this Form 10-Q, which are incorporated by reference into this Item 3, for the most current information on defaulted note and interest payments.

### Item 6. Exhibits

#### Exhibit

Number	Description of Document
3.1	Articles of Incorporation, as amended (filed as Exhibit 3.1 to the registrant's Form 10-K for the year ended December 31, 1995, SEC file 000-12728, and incorporated herein by reference).
3.2	Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the registrant's Form 10-K for the year ended December 31, 1994, SEC file 000-12728, and incorporated herein by reference).
3.3	Certificate of Designation effective April 11, 2005 and amendment to the By-Laws of the Registrant effective March 23, 2005 (filed as Exhibit 4(b) to the registrant's Form 8-K dated April 14, 2005, SEC file 000-12728, and incorporated herein by reference).
3.4	Certificate of Amendment of Restated Articles of Incorporation, filed with the Secretary of State of the State of Michigan on May 27, 2005 (filed as Exhibit 3.4 to the registrant's Registration Statement on Form SB-2 filed on June 9, 2005, SEC File No. 333-125669, and incorporated herein by reference).
3.5	Certificate of Amendment of Restated Articles of Incorporation, filed with the Secretary of State of the State of Michigan on April 19, 2007 (filed as Exhibit 3.5 to the registrant's Registration Statement on Form S-1 filed on April 18, 2008, SEC file No. 333-125669, and incorporated herein by reference).

- 3.6 Certificate of Amendment of Restated Articles of Incorporation, filed with the Secretary of State of the State of Michigan on May 28, 2008 (filed as Exhibit 3.6 to the registrant's Form 10-Q for the quarter ended June 30, 2008, SEC file No. 000-12728, and incorporated herein by reference).
- 3.7 Certificate of Amendment of Restated Articles of Incorporation, filed with the Secretary of State of the State of Michigan on May 21, 2009 (filed as Exhibit 3.7 to the registrant's Form 10-Q for the quarter ended September 30, 2009, SEC file No. 000-12728, and incorporated herein by reference).
- 4.1 Form of Fourth Amended Note and Warrant Purchase Agreement including Form of Integral Vision, Inc. Class 3 Note (filed as Exhibit 4.8 to registrant's Form 10-K for the year ended December 31, 2003, SEC file 000-12728, and incorporated herein by reference).
- 4.2 Securities Purchase Agreement, Effective April 12, 2005 (filed as Exhibit 4.(A) to registrant's Form 8-K filed April 14, 2005, SEC file 000-12728, and incorporated herein by reference).
- 4.3 Form of Consent to Modifications dated November 14, 2006 modifying the terms of the Fourth Amended Note and Warrant Purchase Agreement including Form of Integral Vision, Inc. Class 2 Warrant (filed as Exhibit 4.9 to registrant's Form 10-Q for the quarter ended September 30, 2006, SEC file 000-12728, and incorporated herein by reference).
- 4.4 Form of Consent to Modifications dated August 13, 2007 modifying the terms of the Fourth Amended Note and Warrant Purchase Agreement (filed as Exhibit 4.4 to registrant's Form 10-QSB for the quarter ended June 30, 2007, SEC file 000-12728, and incorporated herein by reference).
- 4.5 Form of Consent to Modifications dated October 10, 2007 modifying the terms of the Fourth Amended Note and Warrant Purchase Agreement (filed as Exhibit 4.6 to registrant's Form 10-QSB for the quarter ended September 30, 2007, SEC file 000-12728, and incorporated herein by reference).
- 4.6 Form of Consent to Modifications dated January 18, 2008 modifying the terms of the Fourth Amended Note and Warrant Purchase Agreement (filed as Exhibit 4.6 to the registrant's Form 10-KSB for the year ended December 31, 2007, SEC file 000-12728, and incorporated herein by reference).
- 4.7 Form of Amended Collateral Assignment of Proprietary Rights dated March 5, 2008 (filed as Exhibit 4.7 to the registrant's Form 10-KSB for the year ended December 31, 2007, SEC file 000-12728, and incorporated herein by reference).
- 4.8 Form of Amended Security Agreement dated March 6, 2008 (filed as Exhibit 4.8 to the registrant's Form 10-KSB for the year ended December 31, 2007, SEC file 000-12728, and incorporated herein by reference).
- 4.9 Form of Consent to Amend and Replace Agreements dated March 12, 2008 (filed as Exhibit 4.9 to the registrant's Form 10-KSB for the year ended December 31, 2007, SEC file 000-12728, and incorporated herein by reference).
- 4.10 Form of Fifth Amended and Restated Note and Warrant Purchase Agreement (filed as Exhibit 4.10 to the registrant's Form 10-KSB for the year ended December 31, 2007, SEC file 000-12728, and incorporated herein by reference).
- 4.11 Waiver and Amendment Agreement, effective September 15, 2008, and the Registration Rights Agreement and common stock Warrants, made a part thereof, among the respective parties thereto (filed as Exhibit 4.1 to the registrant's Form 8-K filed September 15, 2008, SEC file 000-12728, and incorporated herein by reference).

- 4.12 Exchange Agreements, effective September 15, 2008, among the respective parties thereto (filed as Exhibit 4.3 to the registrant's Form 8-K filed September 15, 2008, SEC file 000-12728, and incorporated herein by reference).
- 4.13 Form of Consent to Amend and Replace Agreements dated June 10, 2009 (filed as Exhibit 4.13 to the registrant's Form 10-Q for the quarter ended September 30, 2009, SEC file 000-12728, and incorporated herein by reference).
- 4.14 Form of Consent to Amend and Replace Agreements dated June 24, 2009 (filed as Exhibit 4.13 to the registrant's Form 10-Q for the quarter ended September 30, 2009, SEC file 000-12728, and incorporated herein by reference).
- 4.15 Form of Consent to Amend and Replace Agreements dated September 16, 2009 (filed as Exhibit 4.13 to the registrant's Form 10-Q for the quarter ended September 30, 2009, SEC file 000-12728, and incorporated herein by reference).
- 4.16 Form of Consent to Modifications dated April 19, 2010, modifying the terms of the Fifth Amended Note and Warrant Purchase Agreement (filed as Exhibit 4.16 to the registrant's Form 10-Q for the quarter ended March 30, 2010, SEC file 000-12728, and incorporated herein by reference).
- 4.17 Form of Amendment Agreement dated April 22, 2010, modifying the terms of certain warrants issued pursuant to the Waiver and Amendment Agreement (filed as Exhibit 4.17 to the registrant's Form 10-Q for the quarter ended March 30, 2010, SEC file 000-12728, and incorporated herein by reference).
- 10.1 Integral Vision, Inc. Employee Stock Option Plan (filed as Exhibit 10.5 to the registrant's Form 10-Q for the quarter ended September 30, 1995, SEC file 000-12728, and incorporated herein by reference).
- 10.2 Form of Confidentiality and Non-Compete Agreement Between the Registrant and its Employees (filed as Exhibit 10.4 to the registrant's Form 10-K for the year ended December 31, 1992, SEC File 000-12728, and incorporated herein by reference).
- 10.3 Integral Vision, Inc. 1999 Employee Stock Option Plan (filed as exhibit 10.5 to the registrant's Form 10-Q for the quarter ended June 30, 1999, SEC file 000-12728, and incorporated herein by reference).
- 10.4 Integral Vision, Inc. 2004 Employee Stock Option Plan (filed as exhibit 10.11 to the registrant's Form 10-Q for the quarter ended June 30, 2004, SEC file 000-12728, and incorporated herein by reference).
- 10.5 Integral Vision, Inc. 2008 Equity Incentive Plan (filed as Exhibit 10.5 to the registrant's Form 10-KSB for the year ended December 31, 2007, SEC file 000-12728, and incorporated herein by reference).
- 10.6 Amendment and Restatement of Integral Vision, Inc. 2008 Equity Incentive Plan (filed as Exhibit 10.6 to the registrant's Schedule 14A filed March 26, 2009, SEC file 000-12728, and incorporated herein by reference).
- 10.7 Form of Amendment and Restatement of Integral Vision, Inc. 2008 Equity Incentive Plan. (filed as Exhibit 10.7 to the registrant's Form 10-Q for the quarter ended March 30, 2010, SEC file 000-12728, and incorporated herein by reference).
- 31.1 Certification of Chief Executive Officer of Periodic Report pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 31.2 Certification of Chief Financial Officer of Periodic Report pursuant to Rule 13a-14(e) or Rule 15d-14(a).
- 32.1 Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRAL VISION, INC.

Dated: May 23, 2011

By: /s/ Charles J. Drake  
Charles J. Drake  
Chairman of the Board and  
Chief Executive Officer

Dated: May 23, 2011

By: /s/ Mark R. Doede  
Mark R. Doede  
President, Chief Operating Officer  
and Chief Financial Officer