SCANNER TECHNOLOGIES CORP
Form 10-Q
August 14, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

Commission File Number: 000-08149

SCANNER TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

New Mexico	**85-0169650**
(State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

14505 21st Avenue North, Suite 220, Minneapolis, MN 55447

(Address of principal executive offices)

(763) 476-8271

(Registrant s telephone number, including area code)

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 x No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The Issuer had 12,235,568 shares of Common Stock, no par value, outstanding as of August 8, 2008.

SCANNER TECHNOLOGIES CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30, 2008	**2007**	**Six Months Ended June 30, 2008**	**2007**
REVENUES	$ 17,050	$ 445,566	$ 254,637	$ 748,487
COST OF GOODS SOLD	63,002	214,853	141,362	384,786
GROSS PROFIT (LOSS)	(45,952)	230,713	113,275	363,701
OPERATING EXPENSES				
Selling, general and administrative	190,349	459,731	730,846	1,377,012
Research and development		9,222		17,776
Legal fees	3,166	195,742	92,634	303,086
	193,515	664,695	823,480	1,697,874

LOSS FROM OPERATIONS	(239,467)	(433,982)	(710,205)	(1,334,173)
OTHER INCOME (EXPENSE)				
Interest expense	(93,624)	(46,397)	(185,862)	(46,480)
Miscellaneous		3,127		8,734
LOSS BEFORE INCOME TAXES	(333,091)	(477,252)	(896,067)	(1,371,919)
INCOME TAXES			400	400
NET LOSS	$ (333,091)	$ (477,252)	$ (896,467)	$ (1,372,319)
NET LOSS PER SHARE BASIC AND DILUTED	$ (0.03)	$ (0.04)	$ (0.07)	$ (0.11)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	12,235,568	12,235,568	12,235,568	12,226,308

See notes to condensed consolidated financial statements.

SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (unaudited)	**December 31, 2007**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 16,157	$ 4,565
Accounts receivable, less allowance of $12,000	135,716	303,214
Inventories	177,253	217,839
Prepaid expenses	26,505	26,602
TOTAL CURRENT ASSETS	355,631	552,220
PROPERTY AND EQUIPMENT, net	5,604	8,496
PATENT RIGHTS, net	3,430	24,014
OTHER	7,199	7,199
	$ 371,864	$ 591,929
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		

Bank line of credit	$ 785,000	$
Accounts payable	67,451	132,474
Accrued expenses	81,810	119,238
Accrued judgment	3,355,033	3,355,033
TOTAL CURRENT LIABILITIES	4,289,294	3,606,745
BANK LINE OF CREDIT		300,000
TOTAL LIABILITIES	4,289,294	3,906,745
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT		
Preferred stock, no par value, 50,000,000 shares authorized; no shares issued and outstanding		
Common stock, no par value, 50,000,000 shares authorized; 12,235,568 shares issued and outstanding	8,582,094	8,459,160
Deferred financing costs, net	(284,866)	(455,785)
Note receivable for common stock	(153,900)	(153,900)
Accumulated deficit	(12,060,758)	(11,164,291)
	(3,917,430)	(3,314,816)
	$ 371,864	$ 591,929

See notes to condensed consolidated financial statements.

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SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30,	
	2008	**2007**
OPERATING ACTIVITIES		
Net loss	$ (896,467)	$ (1,372,319)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	2,892	4,820
Amortization of patent rights	20,584	29,160
Write-off of invalid patents		24,015
Stock option and warrant compensation expense	122,934	409,545
Amortization of deferred financing costs	170,919	35,608
Changes in operating assets and liabilities:		
Accounts receivable	167,498	(74,411)
Inventories	40,586	149,147

Prepaid expenses	97	13,430
Accounts payable	(65,023)	77,600
Accrued expenses	(37,428)	24,804
Net cash used by operating activities	(473,408)	(678,601)
INVESTING ACTIVITY		
Purchases of property and equipment		(3,851)
FINANCING ACTIVITIES		
Proceeds on bank line of credit	485,000	
Proceeds from exercise of stock options		9,653
Net cash provided by financing activities	485,000	9,653
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,592	(672,799)
CASH AND CASH EQUIVALENTS		
Beginning of period	4,565	688,251
End of period	$ 16,157	$ 15,452
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	$ 14,943	$ 10,872
Income taxes	400	400
Noncash financing activities:		
Warrants issued in connection with line of credit for deferred financing costs		662,313

See notes to condensed consolidated financial statements.

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SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Basis of Presentation and Significant Accounting Policies -

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 2007 included in our Annual Report on Form 10-KSB.

Nature of Business

The Company invents, develops and markets vision inspection products that are used in the semiconductor industry for the inspection of integrated circuits. The Company s customer base is small in numbers and global in location.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Scanner Technologies Corporation and its wholly owned subsidiary, Scanner Technologies Corporation International, incorporated in the United States and formerly registered in Singapore. The subsidiary ceased operations during 2006. All significant intercompany balances and transactions have been eliminated.

Revenue Recognition

Revenue is earned primarily through sales of vision inspection products to distributors and to third party customers. For sales to distributors, revenue is recognized upon shipment as the distributors have no acceptance provisions and title passes at shipment. For sales to third party customers, title passes at shipment; however, the customer has certain acceptance provisions relating to installation and training. These provisions require the Company to defer revenue recognition until the equipment is installed and the customers personnel are trained. As a result, revenue is recognized for third party customers once the product has been shipped, installed and customer personnel are trained. This process typically is completed within two weeks to a month after shipment.

Estimates

The preparation of these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant management estimates relate to the allowance for uncollectible accounts receivable, inventory allowance for excess inventories, litigation related accrual and the valuation allowance on deferred tax assets.

Cash Equivalents

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

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Accounts Receivable

Accounts receivable arise from the normal course of selling products on credit to customers. An allowance for doubtful accounts has been provided for estimated uncollectible accounts. Accounts receivable balances, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms and practices are analyzed when evaluating the adequacy of the allowance for doubtful accounts. Individual accounts are charged against the allowance when collection efforts have been exhausted.

Fair Value of Financial Instruments

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008. The Company has elected to defer the adoption of the nonrecurring fair value measurement disclosures of nonfinancial assets and liabilities. The adoption of FSP FAS 157-2 is not expected to have a material impact on the Company s condensed consolidated financial statements.

Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method. The Company has provided an allowance for estimated excess inventories equal to the difference between the cost of inventories and the estimated fair value based on assumptions about future demand and market conditions. Inventory quantities, historical sales, company and industry sales projections, current economic conditions and technological changes are analyzed when evaluating the adequacy of the allowance for excess inventories. Obsolete inventories are charged against the allowance.

The Company has a significant quantity of potentially excess inventories. An allowance has been provided for these excess inventories. Management believes that the inventory, after considering the allowance, does not currently have a significant risk of technological obsolescence nor does it, based on recent selling prices and estimated carrying costs, have any significant lower of cost or market concerns.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using accelerated methods. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life or lease term.

Patent Rights

Patent rights are stated at cost less accumulated amortization. Amortization is provided using the straight- line method over six years, the deemed useful lives of the patents.

Long-Lived Assets

All long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. An impairment loss is recognized when estimated undiscounted cash flows to be generated by those assets are less than the carrying value of the assets. When an impairment loss is recognized, the carrying amount is reduced to its estimated fair value, based on appraisals or other reasonable methods to estimate value.

Product Warranty

An accrual is provided for estimated incurred but unidentified product warranty issues based on historical activity. The warranty accrual and related expenses were not significant.

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Accounting for Stock-Based Compensation

The Company has a stock-based employee compensation plan consisting of stock options and warrants. The Company follows the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment (as amended), using the modified prospective application method and the interpretations in Securities and Exchange Commission Staff Accounting Bulletin No. 107, Share-Based Payment. Among other items, SFAS No. 123(R) requires companies to recognize the cost of employee/director services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The unaudited condensed consolidated statements of operations for the six months ended June 30, 2008 and 2007 reflect share-based compensation expense of $122,934 and $409,545, respectively, and for the three months ended June 30, 2007 reflect share-based compensation expense of $10,754. There was no share-based compensation expense in the three months ended June 30, 2008. At June 30, 2008, there was no unrecognized compensation cost related to options and warrants.

The fair value of options and warrants granted during the six months ended June 30, 2008 and 2007 was estimated at grant date using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	2008	2007
Risk-free interest rate	4.00%	4.65%
Dividend yield	0%	0%
Volatility factor of expected market price of common stock	148%	93%
Weighted average expected life	3.8 years	1.9 years

Income Taxes

The Company is taxed as a domestic U.S. corporation under the Internal Revenue Code. Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred tax assets are evaluated and a valuation allowance is established if it is more likely than not that all or a portion of the tax asset will not be utilized.

Credit Risk

Significant concentrations of credit risk exist in accounts receivable, which are due from customers located primarily in the Far East.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average common shares outstanding for the reported period. Diluted net loss per share reflects the potential dilution that could occur if holders of warrants and options that are not antidilutive converted their holdings into common stock. All warrants and options were antidilutive in the three and six month periods ended June 30, 2008 and 2007, respectively.

Options and warrants to purchase 7,421,122 shares of common stock with a weighted average exercise price of $1.18 were excluded from the diluted computation for the three and six months ended June 30, 2008, respectively, because they were antidilutive. Options and warrants to purchase 7,442,882 shares of common stock with a weighted average exercise price of $1.47 were excluded from the diluted computation for the three and six months ended June 30, 2007, respectively, because they were antidilutive.

Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007), Business Combinations, which establishes principles and requirements for how the acquirer recognizes, measures, and discloses the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; and the goodwill acquired or a gain from a bargain purchase. SFAS No. 141 (revised 2007) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

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In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements An amendment of ARB No. 51, which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years, and the interim periods within those fiscal years, beginning on or after December 15, 2008.

Management believes the adoption of the preceding pronouncements will have no significant impact on the Company s financial condition or results of operations.

2. Going Concern -

The condensed consolidated financial statements were prepared in contemplation of the Company as a going concern. The Company incurred net losses of $896,467, $5,800,121 and $1,084,305 for the six months ended June 30, 2008 and the years ended December 31, 2007 and 2006, respectively, and has a stockholders deficit of $3,917,430 at June 30, 2008. These conditions raise a substantial doubt about the Company s ability to continue as a going concern. The unfavorable outcome of recent litigation (Note 5) against ICOS Vision Systems Corp. N.V. (ICOS) had an adverse effect on the Company s financial condition. The Company appealed the judgment in that case, however, and on June 19, 2008, the United States Court of Appeals issued an opinion reversing the judgment in part and affirming the judgment in part. ICOS has filed a petition for a panel rehearing with the Court of Appeals. If the Company s appeal does not result in the reversal of the District Court s rulings, the Company may be required to seek protection from creditors under the bankruptcy laws or to curtail, and possibly cease, its operations.

During the six months ended June 30, 2008, the Company s working capital position decreased due to the net effect of the operating loss which was partially offset by non-cash adjustments relating to stock option and warrant compensation, depreciation and amortization, and by the effect of the bank line of credit becoming a current liability during the period. In response to reduced demand for its products and declining working capital, the Company has made a significant reduction in its number of employees and implemented other cost-saving measures. Despite these efforts to reduce costs, the Company expects to continue to incur litigation expenses, perhaps at a higher rate than in the second quarter, due in part to two additional proceedings filed against the Company in response to the June 19 opinion of the United States Court of Appeals in the ICOS litigation. Assuming the Company succeeds in reversing the judgment against it in the ICOS litigation and that litigation expenses in the third and fourth quarters are substantially the same as in the second quarter, the Company believes that its working capital at June 30, 2008 along with the funds available under the bank line of credit will be adequate to satisfy its projected operating and capital requirements until the end of calendar 2008. If litigation expenses in the third and fourth quarters are higher than second quarter amounts, the Company will deplete its working capital more rapidly and will need additional financing before the end of calendar 2008. The Company is pursuing several alternatives to obtain additional working capital including seeking additional debt or equity financing and licensing or sale of the Company s intellectual property to licensors or buyers that may include parties interested in continuing to enforce the Company s intellectual property through litigation and negotiation with the other parties in the Company s existing litigation to reach a satisfactory resolution of such litigation. There is no assurance that the Company will be able to secure the additional cash or working capital that it requires to continue operations. If the Company is unable to secure the necessary cash or working capital, it may be required to seek protection from creditors under the bankruptcy laws or to curtail, and possibly cease, its operations.

The Company s continuation as a going concern is dependent upon its ability to generate sufficient operating cash flow, including the impact of litigation-related expenses, or to obtain additional financing or refinancing to meet its obligations. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities should the Company be unable to continue as a going concern.

3. Inventories -

Inventories, net of allowances of $230,000 and $246,000 at June 30, 2008 and December 31, 2007, respectively, consisted of the following:

	June 30, 2008	**December 31, 2007**
Finished goods	$ 37,027	$ 69,027
Subassemblies	41,368	49,284
Raw materials	98,858	99,528
	$ 177,253	$ 217,839

Obsolete inventories of approximately $51,000 were written off against the reserve in the six months ended June 30, 2008.

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4. Bank Line of Credit -

Effective May 21, 2007, the Company entered into a bank line of credit through May 1, 2009 in the amount of $1,170,000. The interest rate is the bank s reference rate, 5.00% at June 30, 2008. The line is collateralized by a security interest in the assets of the Company and guaranteed by eleven individuals, one of whom is a director of the Company. The Company had outstanding indebtedness of $785,000 under the line at June 30, 2008.

5. Contingencies and Uncertainty -

In an agreement dated April 19, 2002, the Company s Chief Executive Officer (CEO) forgave the payment of his accrued salary of $1,254,575 and released the Company, its successors, its officers and directors from any liability in connection with the accrued salary. In exchange, the Company agreed that its CEO will receive certain proceeds, if any, that Scanner may receive out of litigation involving patents that Scanner had licensed. Under the agreement, the Company keeps 60% of any proceeds of the currently ongoing litigation and pays its CEO 40% of such proceeds until the Company has been reimbursed for all attorney fees and other expenses incurred in connection with the current litigation, and its CEO has received the total of $1,254,575. If one party receives all the amounts owing to such party before the other party s claim under this provision is satisfied, the other party receives 100% of the proceeds until its claim is satisfied. If any proceeds remain after such payment, the Company s CEO receives 50% of such remainder. He also has a right to receive part of the proceeds, if any, the Company may receive out of any subsequent litigation involving the licensed patents. The Company keeps 60% of any such proceeds until its attorney fees and other expenses incurred in connection with the current and any subsequent litigation have been reimbursed, and its CEO receives 40% of any such proceeds until he has received a total of $1,254,575 of the proceeds of the currently ongoing and any subsequent litigation. If any proceeds of the subsequent litigation remain after such distribution, the Company will pay 25% of such remaining proceeds to its CEO. To date, aggregate proceeds of $160,000 related to this agreement were paid to the CEO, which occurred in 2003.

To provide the Company s President with an incentive to continue his employment with the Company, and to compensate him for compensation which the Company believes was less than he might have received in a comparable position elsewhere, the President was also a party to the agreement regarding the distribution of litigation proceeds. The Company agreed to pay him 20% of the remaining proceeds, if any, Scanner receives out of the current ongoing litigation, and 25% of the remaining proceeds, if any, that Scanner may receive out of any future litigation involving the licensed patents, and that remain after the aforesaid payments to the Company and its CEO have been made out of such proceeds.

In July 2000, the Company instituted a lawsuit against ICOS Vision Systems Corp. N.V. (ICOS) for infringement of two of its patents (U.S. Patent Nos. 6,064,756 and 6,064,757). The patents disclose systems and methods of inspecting ball grid array devices in three dimensions. A trial was held in March 2005 in the United States District Court for the Southern District of New York. ICOS later instituted actions against the Company in 2005 and 2007 asking the court to declare patents 6,064,756 and 6,064,757, and other related patents invalid and not infringed. On June 1, 2007, the New York court entered an order finding the Company s 6,064,756 and 6,064,757 patents not infringed by ICOS and its customers, and barring the Company from enforcing all of its patents related to inspecting ball grid array devices in three dimensions. The Company wrote off the net unamortized balance of the invalid patents in the second quarter of 2007. As a result of the ruling, the court dismissed the 2005 and 2007 ICOS actions and permitted ICOS to move for attorney s fees and costs. On September 12, 2007, the Company filed an appeal with the United States Court of Appeals for the Federal Circuit regarding this case. On November 2, 2007, the New York District court issued a supplemental judgment that ordered Scanner to pay ICOS $2,717,934 in attorney s fees, $245,229 in costs, and $391,870 in expert fees, for a total award of fees and costs of $3,355,033. On January 3, 2008, the Court of Appeals ordered a stay of the supplemental judgment pending appeal. On June 19, 2008, the Court of Appeals issued an opinion that reversed the New York Court s judgment that the Company s patents are unenforceable due to inequitable conduct, and vacated the award of attorneys fees. The Court of Appeals affirmed decisions of noninfringement and invalidity of U.S. patents 6,064,756 and 6,064,757 owned by the Company. On June 20, 2008, NVIDIA Corporation and ICOS filed declaratory judgment complaints against the Company in the U.S. District Court for the Southern District of New York. The complaints seek rulings that various patents owned by the Company are invalid and not infringed by BGA devices manufactured by NVIDIA and inspection equipment manufactured by ICOS. On July 14, 2008, ICOS filed a petition for a panel rehearing with the Court of Appeals as to the issue of unenforceability of Scanner s patents due to inequitable conduct. The Company intends to vigorously defend itself and its intellectual property rights and expects to incur significant additional expenses to pursue its claims. If the Company is successful on its appeal, some of the proceeds to be received, if any, by Scanner in connection with the foregoing lawsuit or subsequent litigation with respect to patent litigation will be distributed to its CEO and President in accordance with employment agreements. No assessment of the likely outcome of the appeal can be made at this time.

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6. Stock Options and Warrants -

On January 11, 2008, the Company granted ten-year stock options to purchase an aggregate of 700,000 shares of common stock at $.07 per share and five-year stock options to purchase an aggregate of 1,050,000 shares of common stock at $.077 per share to seven employees and a consultant to the Company. All of the options vested immediately. In addition, the Company granted ten-year warrants to purchase an aggregate of 350,000 shares of common stock at $.07 per share to two directors and a consultant. The warrants were immediately exercisable. The fair value of the stock options and warrants granted was $122,934 as determined by the Black-Scholes-Merton option pricing model.

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

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements are based on our beliefs and assumptions and on information currently available to us. Forward-looking statements include, among others, the information concerning possible or assumed future results of operations of Scanner Technologies Corporation and its subsidiary (collectively referred to in this report as our company, we, us, our, or the Company) set forth ur the heading Management s Discussion and Analysis or Plan of Operation. Forward-looking statements also include statements in which words such as may, will, should, could, expect, anticipate, intend, plan, believe, estimate, predict, potential, or similar express Forward-looking statements are not guarantees of future performance. Our future results and shareholder value may differ materially from those expressed in these forward-looking statements. We caution you not to put undue reliance on any forward-looking statements included in this document.

GENERAL

Our condensed consolidated financial statements were prepared assuming we will continue as a going concern. We incurred net losses of $896,467, $5,800,121 and $1,084,305 for the six months ended June 30, 2008 and the years ended December 31, 2007 and 2006, respectively, and have a stockholders deficit of $3,917,430 at June 30, 2008. These conditions raise a substantial doubt about our ability to continue as a going concern. The unfavorable outcome of recent litigation (See Note 5 to the condensed consolidated financial statements) against ICOS had an adverse effect on our financial condition. We appealed the judgment in that case, however, and on June 19, 2008, the United States Court of Appeals issued an opinion reversing the judgment in part and affirming the judgment in part. ICOS has filed a petition for a panel rehearing with the Court of Appeals. If our appeal does not result in the reversal of the District Court s rulings, the Company may be required to seek protection from creditors under the bankruptcy laws or to curtail, and possibly cease, operations.

During the six months ended June 30, 2008, our working capital position decreased due to the net effect of the operating loss which was partially offset by non-cash adjustments relating to stock option and warrant compensation, depreciation and amortization, and by the effect of the bank line of credit becoming a current liability during the period. In response to reduced demand for our products and declining working capital, we have made a significant reduction in the number of our employees and implemented other cost-saving measures. Despite these efforts to reduce costs, we expect to continue to incur litigation expenses, perhaps at a higher rate than in the second quarter, due in part to two additional proceedings filed against us in response to the June 19 opinion of the United States Court of Appeals in the ICOS litigation. Assuming we succeed in reversing the judgment against us in the ICOS litigation and that litigation expenses in the third and fourth quarters are substantially the same as in the second quarter, we believe that our working capital at June 30, 2008 along with the funds available under the bank line of credit will be adequate to satisfy our projected operating and capital requirements until the end of calendar 2008. If litigation expenses in the third and fourth quarters are higher than second quarter amounts, we will deplete our working capital more rapidly and will need additional financing before the end of calendar 2008. We are pursuing several alternatives to obtain additional working capital including seeking additional debt or equity financing and licensing or sale of our intellectual property to licensors or buyers that may include parties interested in continuing to enforce our intellectual property through litigation and negotiation with the other parties in our existing litigation to reach a satisfactory resolution of such litigation. There is no assurance that we will be able to secure the additional cash or working capital that we require to continue operations. If we are unable to secure the necessary cash or working capital, the Company may be required to seek protection from creditors under the bankruptcy laws or to curtail, and possibly cease, operations.

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Our continuation as a going concern is dependent upon our ability to generate sufficient operating cash flow or to obtain additional financing or refinancing to meet our obligations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities should we be unable to continue as a going concern.

We generate revenues from the sale of machine-vision inspection products used in the semiconductor industry for the inspection of integrated circuits. The devices include machine-vision modules sold to original equipment manufacturers that use the modules as a component of inspection systems they sell to end users. Because we sell relatively few of our devices each year, our business is characterized by uneven quarterly results that are dependent on the timing, nature and mix of sales.

In addition to general trends in the semiconductor marketplace, we must compete for sales with other providers of machine-vision inspection equipment, most of whom are larger, better financed and offer a broader selection of products. We must compete on the basis of price, product performance, including speed and ease of use, and technological advancement.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of financial condition and results of operations is based upon the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates and judgments, including those related to bad debts, excess inventories, warranty obligations, income taxes, contingencies and litigation. Our estimates are based on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Revenue recognition
Allowances for doubtful accounts and excess inventories
Litigation-related accruals
Deferred income taxes and valuation allowance
Valuation of options and warrants

Revenue is earned primarily through sales of vision inspection products to distributors and to third party customers. For sales to distributors, revenue is recognized upon shipment as the distributors have no acceptance provisions and title passes at shipment. For sales to third party customers, title passes at shipment; however, the customer has certain acceptance provisions relating to installation and training. These provisions require the Company to defer revenue recognition until the equipment is installed and the customers personnel are trained. As a result, revenue is recognized for third party customers once the product has been shipped, installed and customer personnel are trained. This process typically is completed within two weeks to a month after shipment.

Accounts receivable arise from the normal course of selling products on credit to customers. An allowance for doubtful accounts has been provided for estimated uncollectible accounts. Accounts receivable balances, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms and practices are analyzed when evaluating the adequacy of the allowance for doubtful accounts. Individual accounts are charged against the allowance when collection efforts have been exhausted.

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Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method. We have provided an allowance for estimated excess inventories equal to the difference between the cost of inventories and the estimated fair value based on assumptions about future demand and market conditions. Inventory quantities, historical sales, company and industry sales projections, current economic conditions and technological changes are analyzed when evaluating the adequacy of the allowance for excess inventories. We had a significant quantity of excess inventories related to our VisionFlex robotic inspection systems which were written off in 2007. The VisionFlex inventories were written off primarily because of a lack of sales and the effect of the unfavorable ruling related to ICOS litigation. We are no longer soliciting orders for our VisionFlex systems. Management believes that the remaining inventory, after considering the allowance, does not currently have a significant risk of technological obsolescence nor does it, based on recent selling prices and estimated carrying costs, have any significant lower of cost or market concerns.

We record litigation-related accruals as a charge to operations when information is available prior to the issuance of our condensed consolidated financial statements that indicates that it is probable a liability has been incurred at the date of the condensed consolidated financial statements and the amount can be reasonably determined. On November 2, 2007, the New York District Court issued a supplemental judgment that ordered us to pay ICOS $2,717,934 in attorney s fees, $245,229 in costs, and $391,870 in expert fees, for a total award of fees and costs of $3,355,033. The judgment has been appealed and is currently stayed. The total costs related to this judgment were accrued in the fourth quarter of 2007.

We are taxed as a domestic U.S. corporation under the Internal Revenue Code. Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred tax assets are evaluated and a valuation allowance is established if it is more likely than not that all or a portion of the tax asset will not be utilized. The adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Income Tax Uncertainties an interpretation of FASB Statement No. 109, has not had a significant impact on our consolidated financial position, results of operations and liquidity.

We have a stock-based employee compensation plan consisting of stock options and warrants. We follow the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (as amended), using the modified prospective application method and the interpretations in Securities and Exchange Commission Staff Accounting Bulletin No. 107, Share-Based Payment. Among other items, SFAS No. 123(R) requires companies to recognize the cost of employee/director services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. We estimate the fair value of options and warrants at the grant date using the Black-Scholes-Merton option pricing model. The model takes into consideration weighted average assumptions related to the following: risk-free interest rate, expected life, expected volatility, and expected dividend rate.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2008 COMPARED TO THREE MONTHS ENDED JUNE 30, 2007

Revenues for the three months ended June 30, 2008, were $17,050 compared to $445,566 for the three months ended June 30, 2007. Module, spare and parts sales declined significantly in 2008. Six modules were sold in the three months ended June 30, 2007 while none were sold in the three months ended June 30, 2008. Since we sell relatively few of our devices each year, our business is characterized by uneven quarterly results that are dependent on the timing, nature and mix of sales.

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Cost of goods sold decreased by $151,851 to $63,002 in the three months ended June 30, 2008, from $214,853 in 2007. The decrease in cost of goods sold resulted primarily from the significant decrease in revenues and a decrease in the allowance for excess inventories charged to cost of goods sold. The total allowance for excess inventories charged to cost of goods sold was approximately $32,000 and $57,000 in the three months ended June 30, 2008 and 2007, respectively.

Selling, general and administrative expenses decreased by $269,382 to $190,349 for the three months ended June 30, 2008, compared to $459,731 in the same quarter of 2007. The decrease in expenses related primarily to a decrease in salaries and related costs of approximately $160,000 because of the implementation of cost reduction programs and because of fewer personnel, a decrease in professional fees of approximately $55,000, and a decrease in share-based compensation expense of approximately $11,000. In addition, the net unamortized patent costs of approximately $24,000 were written-off in 2007 on patents deemed to be invalid.

We did not incur any research and development expense in the three months ended June 30, 2008, compared to $9,222 for the three months ended June 30, 2007. We do not have any current research and development activities.

Legal fees decreased by $192,576 to $3,166 in the three months ended June 30, 2008, from $195,742 in the same quarter of 2007. A significant portion of the legal fees in 2007 related to the patent infringement lawsuits.

Other expense was $93,624 in the three months ended June 30, 2008, compared to $43,270 in the same quarter of 2007. Interest expense increased by $47,227 in 2008 compared to 2007. Interest expense resulted primarily from outstanding balances on the line of credit and from amortization of the warrant valuation cost related to the line of credit.

We recognized no income tax benefit to offset the loss before income taxes in the three months ended June 30, 2008 and 2007, as no tax benefit could be utilized.

The net loss for the three months ended June 30, 2008 was $333,091 or $.03 per share, compared to a net loss of $477,252, or $.04 per share in the same quarter of 2007. The change was the result of decreased operating expenses of $471,180 being offset by a decrease in gross profit of $276,665 and by an increase in nonoperating expenses of $50,354.

SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO SIX MONTHS ENDED JUNE 30, 2007

Revenues for the six months ended June 30, 2008, were $254,637 compared to $748,487 for the six months ended June 30, 2007. Module, spare and parts sales declined significantly in 2008. Nine modules were sold in the six months ended June 30, 2007 while one was sold in the six months ended June 30, 2008. Since we sell relatively few of our devices each year, our business is characterized by uneven quarterly results that are dependent on the timing, nature and mix of sales.

Cost of goods sold decreased by $243,424 to $141,362 in the six months ended June 30, 2008, from $384,786 in 2007. The decrease in cost of goods sold resulted primarily from the significant decrease in revenues and a decrease in the allowance for excess inventories charged to cost of goods sold. The total allowance for excess inventories charged to cost of goods sold was approximately $35,000 and $122,000 in the six months ended June 30, 2008 and 2007, respectively. In 2008, material cost, excluding excess inventory allowances, decreased 1.2% as a percent of sales, primarily because of the change in the sales mix.

Selling, general and administrative expenses decreased by $646,166 to $730,846 for the six months ended June 30, 2008, compared to $1,377,012 for the six months ended June 30, 2007. The decrease in expenses related primarily to a decrease in share-based compensation expense of approximately $287,000, a decrease in salaries and related costs of approximately $221,000 because of the implementation of cost reduction programs and because of fewer personnel, and a decrease in professional fees of approximately $87,000. In addition, the net unamortized patent costs of approximately $24,000 were written-off in 2007 on patents deemed to be invalid.

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We did not incur any research and development expense in the six months ended June 30, 2008, compared to $17,776 for the six months ended June 30, 2007. We do not have any current research and development activities.

Legal fees decreased by $210,452 to $92,634 in the six months ended June 30, 2008, from $303,086 in the same period of 2007. A significant portion of the legal fees in both periods related to the patent infringement lawsuits.

Other expense was $185,862 in the six months ended June 30, 2008, compared to $37,746 in the first six months of 2007. Interest expense increased by $139,382 in 2008 compared to 2007. Interest expense resulted primarily from outstanding balances on the line of credit and from amortization of the warrant valuation cost related to the line of credit.

We recognized no income tax benefit to offset the loss before income taxes in the six months ended June 30, 2008 and 2007, as no tax benefit could be utilized.

The net loss for the six months ended June 30, 2008 was $896,467, or $.07 per share, compared to a net loss of $1,372,319, or $.11 per share in the same period of 2007. The change was the result of decreased operating expenses of $874,394 being offset by a decrease in gross profit of $250,426 and by an increase in nonoperating expenses of $148,116.

LIQUIDITY AND CAPITAL RESOURCES

Effective May 21, 2007, we entered into a bank line of credit through May 1, 2009 in the amount of $1,170,000. The interest rate is the bank s reference rate, currently 5.00%. The line is collateralized by a security interest in the assets of the Company and guaranteed by eleven individuals, one of whom is a director of the Company. We had outstanding indebtedness of $785,000 under the line at June 30, 2008.

During the six months ended June 30, 2008, our working capital position decreased due to the net effect of the operating loss being partially offset by non-cash adjustments, relating to stock option and warrant compensation, depreciation and amortization, and by the effect of the bank line of credit becoming a current liability during the period. Assuming we succeed in reversing the judgment against us in the ICOS litigation and that litigation expenses in the third and fourth quarters are substantially the same as in the second quarter, we believe that our working capital at June 30, 2008 along with the funds available under the bank line of credit will be adequate to satisfy our projected operating and capital requirements until the end of calendar 2008. If litigation expenses in the third and fourth quarters are higher than second quarter amounts, we will deplete our working capital more rapidly and will need additional financing before the end of calendar 2008. We are pursuing several alternatives to obtain additional working capital including seeking additional debt or equity financing and licensing or sale of our intellectual property to licensors or buyers that may include parties interested in continuing to enforce our intellectual property through litigation and negotiation with the other parties in our existing litigation to reach a satisfactory resolution of such litigation. There is no assurance that we will be able to secure the additional cash or working capital that we require to continue operations. If we are unable to secure the necessary cash or working capital, the Company may be required to seek protection from creditors under the bankruptcy laws or to curtail, and possibly cease, operations.

On June 1, 2007, the New York District Court entered an order finding our patent Nos. 6,064,756 and 6,064,757 not infringed by ICOS and its customers, and barring us from enforcing all of our patents related to inspecting ball grid array devices in three dimensions. On September 12, 2007, we filed an appeal with the United States Court of Appeals for the Federal Circuit regarding this case. On November 2, 2007, the New York District Court issued a supplemental judgment that ordered us to pay ICOS $2,717,934 in attorney s fees, $245,229 in costs, and $391,870 in expert fees, for a total award of fees and costs of $3,355,033. On January 3, 2008, the Court of Appeals ordered a stay of the supplemental judgment pending appeal. On June 19, 2008, the Court of Appeals issued an opinion that reversed the New York Court s judgment that our patents are unenforceable due to inequitable conduct, and vacated the award of attorneys fees. On July 14, 2008, ICOS filed a petition for a panel rehearing with the Court of Appeals as to the issue of unenforceability of our patents due to inequitable conduct.

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Net cash used by operating activities for the six months ended June 30, 2008 totaled $473,408. Negative operating cash flows resulted from the net loss of $896,467 being partially offset by non-cash adjustments of $317,329 relating to stock option and warrant compensation expense, depreciation and amortization and by net changes in operating assets and liabilities of $105,730 relating primarily to a decreases in accounts payable and accrued expenses, accounts receivable and inventories.

Net cash provided by financing activities for the six months ended June 30, 2008 totaled $485,000. The amount relates to proceeds on the bank line of credit.

Item 4T. Controls And Procedures

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance of achieving the desired objectives, and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2008 and concluded that the disclosure controls and procedures were not effective, because certain deficiencies involving internal controls over financial reporting constituted a material weakness as discussed below. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified did not result in the restatement of any previously reported financial statements or any other related financial disclosures, nor does management believe that it had any effect on the accuracy of the Company s financial statements for the current reporting period.

The material weakness relates to the monitoring and review of work performed by a financial consultant in the preparation of the financial statements, footnotes and financial data included in the reports we file or submit under the Exchange Act. All of our financial reporting is carried out by our financial consultant. This lack of accounting staff results in a lack of segregation of duties and accounting technical expertise necessary for an effective system of internal control.

In order to mitigate this material weakness to the fullest extent possible, all financial reports we file or submit under the Exchange Act are reviewed by the Chief Executive Officer, the President, and the Board of Directors for reasonableness. All unexpected results are investigated.

At any time, if it appears that any control can be implemented to continue to mitigate such weaknesses, it is immediately implemented. We are in the process of implementing appropriate procedures for monitoring and reviewing the work performed by our financial consultant.

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

On June 1, 2007, the New York District Court entered an order finding our patent Nos. 6,064,756 and 6,064,757 not infringed by ICOS and its customers, and barring us from enforcing all of our patents related to inspecting ball grid array devices in three dimensions. On September 12, 2007, we filed an appeal with the United States Court of Appeals for the Federal Circuit regarding this case. On November 2, 2007, the New York District Court issued a supplemental judgment that ordered us to pay ICOS $2,717,934 in attorney s fees, $245,229 in costs, and $391,870 in expert fees, for a total award of fees and costs of $3,355,033. On January 3, 2008, the Court of Appeals ordered a stay of the supplemental judgment pending appeal. On June 19, 2008, the Court of Appeals issued an opinion that reversed the New York Court s judgment that our patents are unenforceable due to inequitable conduct, and vacated the award of attorneys fees. The Court of Appeals affirmed decisions of noninfringement and invalidity of U.S. patents 6,064,756 and 6,064,757 owned by us. On June 20, 2008, NVIDIA Corporation and ICOS filed declaratory judgment complaints against us in the U.S. District Court for the Southern District of New York. The complaints seek rulings that various patents owned by the Company are invalid and not infringed by BGA devices manufactured by NVIDIA and inspection equipment manufactured by ICOS. On July 14, 2008, ICOS filed a petition for a panel rehearing with the Court of Appeals as to the issue of unenforceability of our patents due to inequitable conduct.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index on page following signature page.

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SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Scanner Technologies Corporation

Dated: August 14, 2008

By: /s/ Elwin M. Beaty
Elwin M. Beaty
Chief Executive Officer
and Chief Financial Officer
(Principal executive officer and principal financial and accounting officer)

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EXHIBIT INDEX

SCANNER TECHNOLOGIES CORPORATION

FORM 10-Q FOR QUARTER ENDED JUNE 30, 2008

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of the Registrant--incorporated by reference to Exhibit 2.3 to the Registrant s Current Report on Form 8-K filed on August 15, 2002
3.2	Amended and Restated Bylaws of the Registrant--incorporated by reference to Exhibit 2.4 to the Registrant s Current Report on Form 8-K filed on August 15, 2002
31*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32* Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Filed herewith.