SCANNER TECHNOLOGIES CORP
Form 10-Q
November 19, 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 September 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 12,121,568 shares of Common Stock, no par value, outstanding as of October 31, 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 September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
REVENUES	$ 27,901	$ 468,964	$ 282,538	$ 1,217,451
COST OF GOODS SOLD	66,794	512,132	208,156	896,918
GROSS PROFIT (LOSS)	(38,893)	(43,168)	74,382	320,533
OPERATING EXPENSE (INCOME)				
Selling, general and administrative	126,276	376,560	857,122	1,753,572
Research and development		8,196		25,972
Legal fees	14,399	133,782	107,033	436,868
Judgment	(3,355,033)		(3,355,033)	
	(3,214,358)	518,538	(2,390,878)	2,216,412
INCOME (LOSS) FROM OPERATIONS	3,175,465	(561,706)	2,465,260	(1,895,879)
OTHER INCOME (EXPENSE)	(95,572)	(91,269)	(281,434)	(129,015)
INCOME (LOSS) BEFORE INCOME TAXES	3,079,893	(652,975)	2,183,826	(2,024,894)
INCOME TAXES			400	400
NET INCOME (LOSS)	$ 3,079,893	$ (652,975)	$ 2,183,426	$ (2,025,294)
NET INCOME (LOSS) PER SHARE - BASIC	$ 0.25	$ (0.05)	$ 0.18	$ (0.17)
NET INCOME (LOSS) PER SHARE - DILUTED	$ 0.25	$ (0.05)	$ 0.18	$ (0.17)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	12,235,568	12,235,568	12,235,568	12,229,429
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	12,235,568	12,235,568	12,278,719	12,229,429

See notes to condensed consolidated financial statements.

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SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash	$ 13,454	$ 4,565
Accounts receivable, less allowances of $2,000 and $12,000	17,102	303,214
Inventories	95,867	217,839
Prepaid expenses	16,947	26,602
TOTAL CURRENT ASSETS	143,370	552,220
PROPERTY AND EQUIPMENT, net	4,181	8,496
PATENT RIGHTS, net		24,014
OTHER	7,199	7,199
	$ 154,750	$ 591,929
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Bank line of credit	$ 785,000	$
Accounts payable	106,560	132,474
Accrued expenses	15,267	119,238
Accrued judgment		3,355,033
TOTAL CURRENT LIABILITIES	906,827	3,606,745
BANK LINE OF CREDIT		300,000
TOTAL LIABILITIES	906,827	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	(199,406)	(455,785)
Note receivable for common stock	(153,900)	(153,900)
Accumulated deficit	(8,980,865)	(11,164,291)
	(752,077)	(3,314,816)
	$ 154,750	$ 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)

	Nine Months Ended September 30,	
	2008	**2007**
OPERATING ACTIVITIES		
Net income (loss)	$ 2,183,426	$ (2,025,294)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	4,315	7,335
Amortization of patent rights	24,014	39,451
Write-off of invalid patents		24,015
Stock option and warrant compensation expense	122,934	419,761
Amortization of deferred financing costs	256,379	121,068
Changes in operating assets and liabilities:		
Accounts receivable	286,112	(185,185)
Inventories	121,972	517,409
Prepaid expenses	9,655	8,996
Accounts payable	(25,914)	226,796
Accrued expenses	(103,971)	(46,888)
Accrued judgment	(3,355,033)	
Net cash used by operating activities	(476,111)	(892,536)
INVESTING ACTIVITY		
Purchases of property and equipment		(3,851)
FINANCING ACTIVITIES		
Proceeds on bank line of credit	485,000	220,000
Proceeds from exercise of stock options		9,653
Net cash provided by financing activities	485,000	229,653
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,889	(666,734)
CASH AND CASH EQUIVALENTS		
Beginning of period	4,565	688,251
End of period	$ 13,454	$ 21,517
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	$ 25,055	$ 16,746
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 nine month periods ended September 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.

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

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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.

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. The patent rights are fully amortized at September 30, 2008.

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.