SCANNER TECHNOLOGIES CORP
Form 10QSB
May 14, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2003

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

Commission File Number: 000-08149

SCANNER TECHNOLOGIES CORPORATION
(Name of small business issuer in its charter)

New Mexico	85-0169650
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

14505 21st Avenue North, Suite 220, Minneapolis, MN 55447
(Address of principal executive offices)

(763) 476-8271
(Issuer's telephone number)

The Registrant had 10,091,465 shares of Common Stock, no par value, outstanding as of April 25, 2003.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

SCANNER TECHNOLOGIES CORPORATION

FORM 10-QSB

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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 March 31, 2002	Three Months Ended March 31, 2003
REVENUES	$ 228,620	$ 123,908
COST OF GOODS SOLD	80,446	62,207
GROSS PROFIT	148,174	61,701
OPERATING EXPENSES		
Selling, general and administrative	310,157	322,168
Research and development	180,643	137,206
Legal fees	160,965	33,332
	651,765	492,706
LOSS FROM OPERATIONS	(503,591)	(431,005)
OTHER INCOME (EXPENSE)		
Other income	2,325	2
Interest expense	--	(13,567)

LOSS BEFORE INCOME TAXES (BENEFIT)	(501,266)	(444,570)
INCOME TAXES (BENEFIT)	(150,700)	2,540
NET LOSS	$ (350,566)	$ (447,110)
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.05)	$ (0.04)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	7,061,196	10,022,973

See notes to condensed consolidated financial statements.

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SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2002 (audited)	March 31, 2003 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 31,037	$ 209,431
Accounts receivable, less allowance of $40,000	168,008	137,339
Income taxes receivable	235,900	--
Inventory, less allowance of $32,000 and $28,000	827,857	856,648
Prepaid expenses	25,152	51,801
TOTAL CURRENT ASSETS	1,287,954	1,255,219
PROPERTY AND EQUIPMENT, net	52,159	49,216
PATENT RIGHTS, net	344,776	329,338
OTHER	16,939	15,800
	$ 1,701,828	$ 1,649,573
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES		
Bank line of credit	$ 570,000	$ 791,000
Notes payable to related parties	274,886	271,168
Accounts payable	647,521	653,670
Accrued expenses	119,885	153,332
TOTAL CURRENT LIABILITIES	1,612,292	1,869,170
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIENCY)		

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; 10,000,982 and 10,056,465 shares issued and outstanding	3,064,941	3,202,918
Accumulated deficit	(2,975,405)	(3,422,515)
	89,536	(219,597)
	$ 1,701,828	$ 1,649,573

See notes to condensed consolidated financial statements.

SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31,	
	2002	2003
OPERATING ACTIVITIES		
Net loss	$(350,566)	$(447,110)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	4,963	5,003
Amortization of patent rights	--	15,438
Deferred taxes	(150,700)	--
Deferred stock option compensation	54,311	--
Changes in operating assets and liabilities:		
Accounts receivable	79,078	30,669
Income taxes receivable	1,771	235,900
Inventory	(27,588)	(28,791)
Prepaid expenses and other	(35,022)	(25,510)
Accounts payable	109,095	6,149
Accrued expenses	3,922	33,447
Net cash used by operating activities	(310,736)	(174,805)
INVESTING ACTIVITY		
Purchases of property and equipment	(2,261)	(2,060)
FINANCING ACTIVITIES		
Net proceeds on bank line of credit	--	221,000
Payments on related party debt	--	(3,718)
Proceed from the exercise of warrants	--	477
Proceeds from sale of common stock	--	137,500
Net cash provided by financing activities	--	355,259
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(312,997)	178,394
CASH AND CASH EQUIVALENTS		

Beginning of period	366,750	31,037
End of period	$ 53,753	$ 209,431
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	$ --	$ 13,567
Income taxes	1,212	2,540

See notes to condensed consolidated financial statements.

SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation and Significant Accounting Policies -

The accompanying condensed consolidated financial statements account for the merger between Scanner Technologies Corporation (Scanner) and Southwest Capital Corporation (Southwest) as a capital transaction in substance (and not a business combination of two operating entities) that would be equivalent to Scanner issuing securities to Southwest in exchange for the net monetary liabilities of Southwest, accompanied by a recapitalization (See Note 2). The combined entity of Scanner and its subsidiary and Southwest are referred to as the "Company."

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-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the financial statements and footnotes for the year ended December 31, 2002 included in our Annual Report on Form 10KSB filed on April 15, 2003.

Nature of Business

The Company invents, develops and markets vision inspection devices that are used in the semiconductor industry for the inspection of integrated circuits. The Company's customer base is small in numbers, but 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 registered in Singapore. All significant intercompany balances and transactions have been eliminated.

Revenue Recognition

Revenue is earned primarily through sales of test equipment to third party customers and also to a distributor. For sales to the distributor, revenue is recognized upon shipment as the distributor has 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. The Company provides the training but does not install the equipment. 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.

Management 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 valuation allowance on deferred tax assets and payables for legal fees (See Note 3).

Fair Value of Financial Instruments

The carrying amounts of financial instruments consisting of cash and cash equivalents, receivables, bank line of credit, notes payable, accounts payable and accrued liabilities approximate their fair values.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less 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 uncollectable accounts. Accounts receivable, 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.

Inventory

Inventory is 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 obsolescence for estimated excess and obsolete inventory equal to the difference between the cost of inventory and the estimate fair value based on assumptions about future demand and market conditions.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using accelerated methods. Leasehold improvements are amortized straight-line over the 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. Patent rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. Determination of recoverability is based on an estimate of discounted future cash flows from the use of the asset. Measurement of an impairment loss for patent rights that management expects to use is based on the fair value of the assets as established using a discounted cash flow model.

Product Warranty

The Company provides an accrual for estimated incurred but unidentified product warranty issues based on historical activity. The warranty accrual and related expenses were not significant.

Accounting for Stock-Compensation

The Company accounts for employee stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and provides the disclosures required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Options and warrants to non-employees are accounted for as required by SFAS No. 123.

Income Taxes

The Company is taxed as a domestic U.S. corporation under the Internal Revenue Code. Income taxes are accounted for under SFAS No. 109, "Accounting for Income Taxes." 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. Income tax benefit is the current tax refundable for the year and the change during the year in deferred tax assets and liabilities.

Credit Risk

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

Net Loss Per Share

Net loss per share - basic is determined by dividing the net loss by the weighted-average common shares outstanding. Net loss per share - diluted normally includes common stock equivalents (options and warrants), but were excluded since their effect was antidulitive. For this reason, options and warrants of 606,750 and 2,301,867 shares were excluded from the calculation of diluted outstanding shares for the three months ended March 31, 2002 and 2003, respectively.

2. Merger and Reorganization -

On January 16, 2002, the Company executed an Agreement and Plan of Reorganization with Southwest Capital Corporation (Southwest), a public company with no operations. The agreement provided for the Company to merge into Southwest, with Southwest continuing as the surviving corporation under the name of Scanner Technologies Corporation. On July 31, 2002, the Company completed its merger with Southwest pursuant to which the Company was merged with and into Southwest. This merger was treated as a recapitalization.

At the effective date of the merger each of the 7,568,196 shares of Scanner's common stock outstanding was converted into the right to receive 1.057 shares of the surviving company's common stock and a five-year warrant to purchase 0.2642 shares of the surviving company's common stock. The warrants are exercisable immediately at an exercise price of $1.00 per share. The conversion ratio was based on the total amount of Scanner's common stock outstanding at the effective date of the merger. As a result, the surviving company issued an additional 7,999,594 shares of its common stock and warrants to purchase 1,999,543 shares of common stock. Each share of common stock of Southwest issued and outstanding, 2,001,388 shares, remained issued and outstanding and unaffected by the merger. Southwest had a deficiency in assets of $27,019 at the date of the merger.

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At the time of the merger, Scanner had outstanding warrants to purchase 225,000 shares of its common stock at $2.75 per share. At the time of the merger, these warrants were converted into warrants to purchase a total of 59,445 units of the surviving company's securities at $10.80 per unit, each unit consisting of four shares of the surviving company's common stock and a five-year warrant immediately exercisable to purchase one share of the surviving company's common stock at $1.00 per share. At the time of the merger, the Articles of Incorporation were amended to authorize preferred stock, increase the number of shares the Company can issue and to change the common stock from $.01 par value to no par value stock.

Upon the consummation of the merger of Scanner into Southwest, the Company became the owner of the licensed know-how in exchange for a secured note payable to the licensor (officer/stockholder) for $1.00 and all expenses incurred for securing and maintaining the intellectual property patent rights, totaling $370,505. The exclusive license agreement, which was terminated, covered the operation, manufacturing, testing and selling of Scanner products. The agreement required a fee of 5% of the Company's sales. License expense was $9,500 for the three months ended March 31, 2002.

Pro forma information is not presented for prior periods since the effect is insignificant.

3. Contingencies and Uncertainty

In an agreement dated April 19, 2002, the Company's President and Chief Executive Officer (President) forgave the payment of his accrued salary 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 President would 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 President 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

President 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 President 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 President 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 President. The unearned compensation forgiven ($1,254,575) less the related deferred tax benefit ($436,000) was recorded as additional paid-in capital in stockholders' equity.

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

In 2000, the Company instituted a lawsuit against a Belgian corporation for infringement of two of its patents. The Belgian corporation has filed counterclaims alleging unfair competition. Discovery has been completed in the case and a so-called Markman hearing was held in November 2001. Based on the Markman hearing, the court will determine the scope of the patent claims at issue. The parties filed motions for summary judgment in May 2002. No trial date has been set. At this point, the

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Company will vigorously defend the counterclaim and believes that any unfavorable decision will not have a material or adverse effect on the consolidated financial statements. The Company expects to incur significant additional expenses in 2003 to pursue this lawsuit.

In 2002, the Company brought suit against two law firms that previously represented the Company in the aforementioned patent litigation. The Company demanded a full and complete accounting for the fees and expenses, the payment of which these firms demand in connection with the patent litigation. The Company has paid the law firms $558,652 in legal fees and costs. The law firms claim that the Company owes them an additional $402,984. When the Company brought the patent suit, the law firms estimated that legal fees and costs through the discovery stage of the patent litigation would be $447,000 to $585,000. The Company, therefore, contends that it does not owe any further payments to the defendants. At March 31, 2003 and December 31, 2002, the $402,984 is included in accounts payable in the condensed consolidated balance sheets.

4. Financing Arrangements/Subsequent Events

In April 2003, the bank line of credit was renewed through March 31, 2004. The line was increased by $200,000 to $1,100,000 with an interest rate at prime and the Company provided the bank with a security interest in its general business assets. The line is guaranteed by individuals who received for their financial support (a) five-year warrants to purchase 275,000 shares of the Company's common stock at $2.75 per share and (b) thirty-day warrants to purchase an additional 275,000 shares of the Company's common stock at $2.00 per share. Provided the guarantor pays cash for at least one half of the shares subject to their thirty-day warrant, the guarantor may provide a promissory note payable one year from the exercise day for the remainder of the shares. Prior to May 15, 2003, the expiration date of the thirty-day warrants, all such warrants were exercised in exchange for aggregate cash payments of $300,000 and one-year promissory notes totaling $250,000. In connection with the exercise of their thirty-day warrants, the guarantors were granted two-year warrants to purchase an additional 550,000 shares of the Company's common stock at $2.00 per share. The Company intends to further extend the credit line by providing additional individual guarantees to its bank. Any such guarantor would receive the same or similar warrant coverage as the current guarantors.

Between January 1, 2003 and April 14, 2003, the Company sold 65,000 shares of common stock at $2.50, for an aggregate amount of $162,500, under a private placement offering. Warrants to purchase an additional 16,250 shares of common stock at $3.00 per share were issued in connection with these sales. The warrants expire three years after issuance.

On April 10, 2003, the Company issued a $100,000 4.25% note payable in exchange for cash. The note is due April 8, 2004. A warrant, which expires on April 11, 2006, to purchase 25,000 shares of the Company's common stock at $2.75 per share was issued in connection with the note.

Item 2. Management's Discussion and Analysis or Plan of Operation

This Quarterly Report on Form 10-QSB includes forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended, or 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 set forth under 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 expressions are used. Forward-looking statements are not guarantees of future performance. Our future results and shareholder values 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

The Company's revenues have been adversely affected by the continuing lack of demand in the semiconductor marketplace, which has caused many potential customers to cease or defer purchases of capital equipment such as that offered by the Company. Although the Company has made efforts to manage expenses during this downturn, the Company is confronted with working capital shortages due to ongoing operating expenses, combined with additional expenses relating to the merger of the Company with Scanner Technologies Corporation, a Minnesota Corporation ("Scanner Minnesota") and the Company's ongoing patent litigation. To address these working capital shortages, the Company is attempting to raise additional equity capital through a private offering and extend and increase its bank line of credit.

These efforts are discussed in more detail below. Assuming the availability of sufficient working capital, the Company's success will be dependent upon its ability to develop and commercialize new products, meet the demands of its customers, respond quickly to changes in its market and control expenses and cash usage.

In connection with efforts to raise capital or obtain additional bank financing, the Company may be obligated to issue additional shares of Common Stock or warrants or other rights to acquire Common Stock on terms that will result in dilution to existing shareholders or place restrictions on operations. The Company may also be unsuccessful in obtaining additional equity capital or bank financing on any terms and in that event may be obligated to cease operations and/or attempt to negotiate with its creditors to delay payments or compromise the amounts of its indebtedness. If the Company is unable to reach satisfactory arrangements with its creditors, the Company will responsibly evaluate alternatives including the possibility of seeking protection from creditors under the bankruptcy laws. Creditors may also take action that would force the Company into proceedings under the bankruptcy laws.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of financial condition and results of operations is based upon the 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. The Company evaluates, on an on-going basis, its estimates and judgments, including those related to bad debts, excess inventory, warranty obligations, income taxes, contingencies and litigation. Its 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.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

- Revenue recognition and allowances;
- Inventories;
- Patent rights;
- Accounting for income taxes;

Revenue is earned primarily through sales of test equipment to third party customers and also to a distributor. For sales to the distributor, revenue is recognized upon shipment as the distributor has 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. The Company provides the training but does not install the equipment. 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.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Accounts receivable, 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. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances and charges against earnings may be required.

The Company writes down inventory for estimated excess and obsolete inventory equal to the difference between the cost of inventory and the estimated fair value based upon assumptions about future demand and market conditions. Any significant unanticipated changes in demand or competitive product developments could have a significant impact on the value of the Company's inventory, and its reported results. If actual market conditions are less favorable than those projected, additional inventory write-downs, and charges against earnings may be required.

Patent rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. Determination of recoverability is based on an estimate of discounted future cash flows from the use of the asset. Measurement of an impairment loss for patent rights that management expects to use is based on the fair value of the asset as established using a discounted cash flow model.

The Company accounts for income taxes using the asset and liability approach in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The asset and liability approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in operations in the period that includes the enactment date. Additionally, 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.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2003, COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

Sales for the three months ended March 31, 2003, were $123,908 compared to $228,620 for the three months ended March 31, 2002. The decrease in sales is due to the continued slowness in the semiconductor industry resulting in reduced spending by semiconductor manufactures for capital equipment such as that offered by the Company.

Cost of goods sold decreased by $18,239 to $62,207 in the three months ended March 31, 2003, from $80,446 in 2002. Cost of goods sold as a percentage of sales increased by 15.0% to 50.2% in 2003 compared to 35.2% in 2002. The increase in the cost of goods percentage resulted from the decrease in sales while manufacturing expenses were approximately the same in both periods.

Selling, general and administrative expenses increased by $12,011 to $322,168 for the three months ended March 31, 2003, compared to $310,157 in the prior period. Increases in salaries, professional costs and patent rights amortization were partially offset by decreases in amortization of deferred stock option compensation and license fees.

Research and development expenses were $137,206 in the three months ended March 31, 2003 compared to $180,643 for the three months ended March 31, 2002. The research and development activities related to the Company's development of its own line of robotic inspection systems for sale to end users was in its early stages in 2002. The development process is being completed in 2003 and the first unit was sold in April 2003.

Legal fees decreased by $127,633 to $33,332 in the three months ended March 31, 2003, from $160,965 in 2002. Legal fees related to the patent infringement claim brought by the Company against a competitor were less in 2003 than 2002.

Other income (expense) was ($13,565) in the three months ended March 31, 2003, compared to $2,325 in 2002. The change is primarily due to reduced cash investments and increased debt.

The Company recognized no income tax benefit to offset the loss before income taxes in the three months ended March 31, 2003, as no tax benefit is available to the Company. The $2,540 of taxes provided in the three months ended March 31, 2003 represented minimum state tax payments. A benefit of $150,700 was recognized in the three months ended March 31, 2002.

The net loss for the three months ended March 31, 2003 was $447,110, or $.04 per share, compared to a net loss of $350,566, or $.05 per share, in 2002. The increase in the net loss was the result of a decrease in gross margin of $86,473, increased net nonoperating expenses of $15,890 and increased income taxes of $153,240 offset by a decrease in operating expenses of $159,059.

LIQUIDITY AND CAPITAL RESOURCES (FOR THE THREE MONTHS ENDED MARCH 31, 2003)

The Company is attempting to raise additional capital by offering to sell up to 600,000 shares of its Common Stock at $2.50 per share through an offering conducted in reliance on an exemption from registration under the Securities Act of 1933, as amended (the "Offering"). Each investor will receive for each four shares purchased one three-year warrant to purchase one share of Common Stock at an exercise price of $3. As of April 14, 2003, the Company had received proceeds of $162,500 from investors in the Offering. As described above, there is no assurance that the Company will be successful in its efforts to complete the Offering. If adequate funds are not available or are not available on acceptable terms, the ability to take advantage of unanticipated opportunities, develop or enhance products and services or otherwise respond to competitive pressures would be significantly limited.

In March 2002, the Company obtained a line of credit from a bank. The line had a maximum lending limit of $900,000, an interest rate based on the prime interest rate, and a term of one year, renewable at the discretion of the bank. At March 31, 2003, $791,000 was outstanding under this line of credit. The line was guaranteed by certain shareholders of the Company who pledged collateral to secure their guarantees. In April 2003, the line of credit was renewed through March 31, 2004 and the Company provided the bank with a security interest in its general business assets. The line was increased from $900,000 to $1,100,000, with an interest rate at prime. The new line is guaranteed by certain individuals who have pledged collateral to secure their guarantees. In exchange for these guarantees, the individuals received five-year warrants to purchase an aggregate of 275,000 shares of the Company's common stock at an exercise price of $2.75 per share and 30-day warrants to purchase an aggregate of 275,000 shares of the Company's common stock at an exercise price of $2.00 per share.

The guarantors have exercised the 30-day warrants to purchase a total of 275,000 shares of the Company's common stock by paying $300,000 in cash and $250,000 in one-year notes. The Company intends to further extend the credit line by providing additional individual guarantees to its bank. Any such guarantor would receive the same or similar warrant coverage as the current guarantors.

The Company believes that the line of credit of up to $1,100,000, existing working capital and anticipated cash flows from operations and equity investments will be adequate to satisfy projected operating and capital requirements for the next year.

Net cash used by operating activities for the three months ended March 31, 2003 totaled $174,805. Negative operating cashflows resulted primarily from net operating loss for the period that was partially offset by non-cash adjustments relating to depreciation and amortization and by changes in operating assets and liabilities.

Net cash used by investing activities for the three months ended March 31, 2003 totaled $2,060. The funds were used to purchase property and equipment.

Net cash provided by financing activities for the three months ended March 31, 2003 totaled $355,259. Positive financing cashflows related to the proceeds from borrowings under the bank line of credit and from the sale of common stock offset by payments on debt.

Item 3. Controls and Procedures

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, who is also the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon the evaluation, the Chief Executive Officer, who is also the Company's Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls, or in other factors that could significantly affect these controls subsequent to the date of his evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

Issuance of Common Stock and Warrants

In the three months ended March 31, 2003, the Company sold 55,000 shares of its common stock at $2.50 per share to seven individuals through a private placement offering. The shares were issued as follows: 25,000 in January 2003; 15,000 in February 2003; and 15,000 in March 2003.

The individuals purchasing the above common stock were issued warrants to purchase one share of common stock at $3.00 per share for each four shares purchased. Warrants to purchase 13,750 common shares at $3.00 per share were issued in the three months ended March 31, 2003.

In addition, the Company issued 477 shares of common stock in January 2003 upon the exercise of warrants at $1.00 per share.

The above common stock was issued in reliance on the exemption from registration provided by Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933. The certificates representing the securities bear a restrictive securities legend.

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 and Reports on Form 8-K

Exhibits:

See Exhibit Index on page following Certification Under Section 302 of Sarbanes-Oxley Act of 2002.

Reports on Form 8-K:

None.

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

DATE: May 7, 2003

By: /s/ Elwin M Beaty

Elwin M. Beaty
Its Chief Executive Officer
and Chief Financial Officer

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CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Elwin M. Beaty, the Chief Executive Officer and Chief Financial Officer of Scanner Technologies Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Scanner Technologies Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. I am responsible for the establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/Elwin M. Beaty

Elwin M. Beaty
Chief Executive Officer and
Chief Financial Officer

Dated: May 7, 2003

EXHIBIT INDEX

SCANNER TECHNOLOGIES CORPORATION

FORM 10-QSB FOR QUARTER ENDED MARCH 31, 2003

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
11*	Statement Regarding Computation of Earnings Per Share
99*	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Filed herewith.