SCANNER TECHNOLOGIES CORP
Form SB-2
June 15, 2005

As filed with the Securities and Exchange Commission on June 15, 2005

Registration No. 333-___________

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Scanner Technologies Corporation

(Name of small business issuer in its charter)

New Mexico	**3559**	**85-0169650**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Scanner Technologies Corporation
14505 21st Avenue North, Suite 220
Minneapolis, Minnesota 55447
(763) 476-8271
(Address and telephone number of principal executive offices and principal place of business)

Elwin M. Beaty, President, Chief Executive Officer and Chief Financial Officer
Scanner Technologies Corporation
14505 21st Avenue North, Suite 220
Minneapolis, Minnesota 55447
(763) 476-8271
(Name, address and telephone number of agent for service)

Copies to:

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Minneapolis, Minnesota 55402
Telephone: (612) 492-7000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed maximum offering price per unit(2)	Proposed maximum aggregate offering price(2)	Amount of Registration Fee(1)
Common stock, no par value, to be sold by selling shareholders(3)	3,163,921	$ 1.275	$4,033,999.28	$ 474.80
Common stock, no par value, to be sold by selling shareholders(4)	155,000	$ 1.275	$ 197,625.00	$ 23.26
Total				$ 498.06

(1) Pursuant to Rule 429 under the Securities Act of 1933, this amount does not include $759.70 previously paid relating to 2,750,500 shares of common stock registered pursuant to Registration Statement No. 333-119294, of which 2,386,423 shares remain unsold as of the close of business on May 31, 2005, which shares, along with the 3,318,921 shares being registered hereby, are included in the prospectus contained herein.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457.
(3) Represents shares of common stock issuable to selling shareholders pursuant to outstanding warrants held by such selling shareholders, which shares are being registered for resale on a delayed basis pursuant to Rule 415.
(4) Represents shares of common stock owned by selling shareholders, which shares are being registered for resale on a delayed basis pursuant to Rule 415.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject To Completion, Dated June 15, 2005

PROSPECTUS

[SCANNER logo]

Scanner Technologies Corporation

5,705,344 Shares
of
Common Stock

Shareholders of Scanner Technologies Corporation identified in this prospectus are offering all of the shares to be sold in the offering. These shares may be offered at any time after the date of this prospectus as set forth under Plan of Distribution on page 30 of this prospectus. Prices for the shares may be the market prices prevailing at the time of sale or may be negotiated by the selling shareholder and the buyer. Scanner Technologies Corporation will not receive any of the proceeds from the offering.

The common stock is quoted on the OTC Bulletin Board under the symbol SCNI. The closing sale price of the common stock on June 10, 2005 was $1.35 per share.

The common stock is a risky investment. Before investing, you should read the Risk Factors section, which begins on page 3 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is _________________ 2005

You should rely only on the information contained in this document. We have not authorized anyone to provide any different or additional information. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is illegal. The information in this prospectus is complete and accurate as of the date on the cover, but the

information may change in the future.

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FORWARD LOOKING STATEMENTS

This prospectus, including the information incorporated by reference herein and the exhibits hereto, may include forward-looking statements. Forward-looking statements broadly involve our current expectations for future results. Our forward-looking statements generally relate to our financing plans, trends affecting our financial condition or results of operations, our growth and operating strategy, product development, competitive strengths, the scope of our intellectual property rights, sales efforts, and the declaration and payment of dividends. Words such as anticipates, believes, could estimates, expects, forecast, intend, may, plan, possible, project, should, wi generally identify our forward-looking statements. Any statement that is not a historical fact, including estimates, projections, future trends and the outcome of events that have not yet occurred, are forward-looking statements. Our ability to actually achieve results consistent with our current expectations depends significantly on certain factors that may cause actual future results to differ materially from our current expectations. These factors include, but are not limited to, the factors discussed below under Risk Factors.

You must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. It is not possible to foresee or identify all factors that may affect our forward-looking statements, and you should not consider any list of such factors to be an exhaustive list of all risks, uncertainties or potentially inaccurate assumptions affecting such forward-looking statements.

We caution you to consider carefully these factors as well as any other specific factors discussed with each specific forward-looking statement in this prospectus. In some cases, these factors have affected, and in the future (together with other unknown factors) could affect, our ability to implement our business strategy and may cause actual results to differ materially from those contemplated by such forward-looking statements. No assurance can be made that any expectation, estimate or projection contained in a forward-looking statement can be achieved.

We also caution you that forward-looking statements speak only as of the date made. We undertake no obligation to update any forward-looking statement, but investors are advised to consult any further disclosures by us on this subject in our filings with the Securities and Exchange Commission, especially on Forms 10-KSB, 10-QSB and 8-K (if any), in which we discuss in more detail various important factors that could cause actual results to differ from expected or historic results. We intend to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding our forward-looking statements, and are including the preceding cautionary language for the express purpose of enabling us to use the protections of the safe harbor with respect to all forward-looking statements.

SUMMARY

We encourage you to read the entire prospectus carefully before investing in our common stock. The following summary is qualified in its entirety by the more detailed information, including the Financial Statements and the Notes thereto, included elsewhere in this Prospectus.

Our Company

Scanner Technologies Corporation was formerly known as Southwest Capital Corporation (Southwest Capital) and was incorporated in 1964 under the laws of New Mexico. Originally formed to provide financial services to small businesses, we divested ourselves of such operations in 1990 and did not operate any business from 1992 until July 2002 when we merged with Scanner Technologies Corporation, a privately held Minnesota corporation (Scanner Minnesota). Scanner Minnesota had been formed in 1990 for the purpose of inventing, developing and marketing vision inspection solutions for the semiconductor industry. We are the legal entity surviving such merger; we changed our name to Scanner Technologies Corporation at the merger and have continued to operate the business acquired from Scanner Minnesota.

Our principal offices are located at 14505 21st Avenue N., Suite 220, Minneapolis, Minnesota 55447 (telephone 763-476-8271). Outside of the U.S., we have an office in Singapore, which is primarily engaged in sales of our products. To comply with local laws, the office in Singapore is operated by our wholly-owned subsidiary, Scanner Technologies Corporation International, a Minnesota corporation.

The Offering

Securities registered	3,318,921 shares of common stock.[1]
Securities outstanding as of May 31, 2005	12,216,068[2]
Options and warrants to purchase	5,026,432 shares of common stock.[1]
Use of Proceeds	Scanner Technologies will not receive any proceeds from the sale of common stock in the offering. See Use of Proceeds.

(1) Includes 3,163,921 shares of common stock issuable upon exercise of the warrants held by the selling shareholders and being registered hereby.
(2) Does not include shares of common stock issuable upon exercise of outstanding options and warrants.

RISK FACTORS

Our operations and our securities are subject to a number of risks, including but not limited to those described below. If any of the following risks actually occur, the business, financial condition and/or operating results of Scanner and the trading price and/or value of our securities could be materially adversely affected.

The semiconductor industry that we serve is highly cyclical, causing significant variability in our results of operations.

We serve the semiconductor industry, and our business depends heavily upon capital expenditures by manufacturers in this industry. Due to sudden changes in demand for microelectronic products, the semiconductor industry is highly cyclical, with periods of capacity shortage and periods of excess capacity. In periods of excess capacity, there are often drastic changes in the timing and quantity of capital equipment purchases and investments in new technology or capacity needs by our customers, including sharp cuts in purchases of capital equipment, including our products, by customers. The timing, length and volatility of these periods are difficult to predict, resulting in pressure on our revenues, gross margin and net income. In addition to affecting our customers, downturns also challenge our suppliers, vendors and other partners, as well as our management, sales, engineering, manufacturing, customer service and other employees, who are vital to our success.

During downturns in microelectronic industries, customers typically reduce or delay purchases and/or delay delivery or cancel orders. As a result, it is imperative that we maintain an organization able to quickly and effectively align with market conditions, including bringing our cost structures in line with current industry and overall market conditions. At the same time, it is imperative that we meet the following objectives:

- continue to serve our existing customers,
- provide new and improved solutions for new and existing customers, and
- operate effectively with our suppliers.

If we are, for any reason, unable to achieve any one or more of the above objectives in an efficient, effective and timely manner, there could be a material adverse effect on our business, financial condition and results of operations. Furthermore, any delays or reductions in future purchases of capital equipment or delays or cancellations of current orders by microelectronic device manufacturers, for any reason, may have a material adverse effect on our business, financial condition and results of operations, because they may result in delays, reductions or cancellations of current orders for the semiconductor industry.

Our future rate of growth is highly dependent on the development and growth of the market for semiconductor device inspection equipment.

We primarily target our products to address the needs of semiconductor manufacturers for defect inspection. If, for any reason, the market for semiconductor inspection equipment fails to grow in the long term as we expect, we may be unable to maintain current revenue levels in the short term and return to our historical growth in the long term. Growth in this market is dependent to a large extent upon manufacturers replacing manual inspection with automated inspection technology. There is no assurance that manufacturers will undertake this replacement at the rate we expect.

Global economic and political environments are important to economic conditions, and long term continued risk or concerns regarding economic and political circumstances could decrease customer demand for our products.

Future political or related events similar or comparable to the September 11, 2001 terrorist attacks, significant military conflicts, or long term reactions of governments and society to such events, may significantly affect the willingness or ability of our customers to visit our facilities or trade shows, review our systems capabilities and/or purchase or take delivery of our products, as well as our abilities to visit our customers, to perform application studies for our customers, to sell and deliver solutions and to service those solutions. Any decline in the willingness or ability of our customers to travel and visit our facilities, or in our ability to travel and visit our customers, could have a material adverse effect on our business, financial condition and results of operations. In addition, such events could have an adverse effect on the economy generally, and microelectronic industries in particular, causing our customers to reduce or delay capital equipment purchases.

Our sales and operating results can fluctuate significantly from period to period, which may adversely affect the market price of our stock.

Our quarterly and annual operating results are affected by a wide variety of factors that could adversely affect sales or operating results, or lead to significant variability in our operating results. In addition, because a significant portion of our revenue in any particular quarter has historically come from the sale of a relatively small number of systems, the loss of any sale could have a significant negative impact. A variety of factors could cause this variability, including the following:

- order cancellations or delays in orders by customers;
- the long sales cycle of our products;
- decreases in capital spending by our customers;
- new product introductions by our competitors and competitive pricing pressures;
- entrance into, or additional resources focused on, our markets by larger competitors;
- component shortages resulting in manufacturing delays; and
- delays in the development, introduction and manufacture of our products.

We cannot predict the impact of these and other factors on our revenues and operating results in any future period. Results of operations in any period, therefore, should not be considered indicative of the results to be expected for any future period. Because of this difficulty in predicting future performance, our operating results may fall below expectations of securities analysts or investors in some future quarter or quarters. Our failure to meet these expectations would likely adversely affect the market price of our common stock.

The market acceptance of our products is critical to our growth.

Semiconductor manufacturing equipment and processes are subject to rapid technological changes. We continue to spend a significant amount of time and resources developing new systems, new models to existing system series and improvements or enhancements on current models. Due to the length of the product development cycles in our industry, we must make these significant time and resource expenditures well in advance of any prospect of a revenue stream from such new products. If our customers do not continue to accept our current products and also accept and integrate our new products into their operations, our revenue, cash flow, operating results or stock price could be negatively impacted.

If we are unable to keep pace with rapid technological changes by developing and introducing successful new products and technologies in a timely manner, our products may become obsolete and our business will be harmed.

The microelectronic capital equipment manufacturing business is a highly competitive business and microelectronic device manufacturing equipment and processes are subject to rapid technological changes. We believe that our future success will depend in part upon our ability to continue to enhance our existing product line to meet customer needs and to develop and introduce new products in a timely manner. We cannot assure you that our efforts to improve and advance existing products and to develop new products will be successful or that we will be able to respond effectively to technological change. In addition, we cannot assure that we will choose the most opportunistic new markets and applications.

We continue to make and/or review significant investments in research, development and engineering in new technology and/or businesses with new or complementary products, services and/or technologies, and we are aware of the numerous risks associated therewith, including but not limited to:

- diversion of management s attention from day to day operational matters;
- lack of synergy, or the inability to realize expected synergies;
- failure to commercialize the new technology or business;
- failure to meet the expected performance of the new technology or business;
- lower-than-expected market opportunities or market acceptance of any new products; and
- unexpected reduction of sales of existing products by new products.

If we are unsuccessful at developing new products and technologies, our market share, revenue, financial condition, operating results and/or stock price could be negatively impacted.

Our products are complex and any product or process development issues could negatively impact our operations or financial results.

Our products are complex, and often the applications of our customers are unique. We believe that our future success will depend in part upon our ability to meet our customers functionality and reliability requirements in a timely manner. We cannot be sure that our product offerings, application assistance, enhancement efforts or our new product development efforts will fulfill every functionality and reliability requirement. In addition, new product offerings that are highly complex in terms of software or hardware may require application or service work such as bug fixing prior to acceptance, thereby delaying revenue recognition. If we are unsuccessful in these areas, our market share, revenue, financial condition, operating results or stock price could be negatively impacted.

Our market is highly competitive, and we may lose business to larger and better-financed competitors.

The semiconductor defect inspection equipment industry is highly competitive in all areas of the world. We have many domestic and foreign competitors. Most of these competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer support capabilities than we have. Unless we are able to invest significant financial resources in developing products and enhancing customer support worldwide, and are able to gain customer acceptance of our products, we may not be able to compete effectively.

Our operating results could be negatively impacted if we are unable to obtain the necessary resources to invest in our growth.

We intend to continue to make investments to support business growth and may require additional funds to respond to business challenges, which include the need to develop new products or enhance existing products, enhance our operating infrastructure, acquire complementary businesses and technologies and satisfy working capital requirements. Accordingly, we may need to engage in equity or debt financing to secure additional funds. Equity and debt financing, however, might not be available when needed or, if available, might not be available on terms satisfactory to us. If we are unable to obtain adequate financing or financing on terms satisfactory to us, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Our business may be harmed if we fail to obtain and protect our intellectual property rights.

Our success depends in part upon our ability to obtain intellectual property rights and licenses and to preserve other intellectual property rights covering our products and our products under development. To protect these rights, we have obtained nine domestic patents and intend to continue to seek patents on our inventions when appropriate. The process of seeking intellectual property protection can be time-consuming and expensive. We cannot ensure that:

- patents will be issued from currently pending or future applications;
- our existing patents or any new patents will be sufficient in scope or strength to provide meaningful protection or any commercial advantage to us;
- foreign intellectual property laws will protect our intellectual property rights; or
- others will not independently develop similar products, duplicate our products or design around our technology.

If we do not successfully protect and then enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. We are reviewing the possibility of licensing our technologies to third parties to provide additional revenues. There is, however, no assurance that we will be successful in obtaining licenses on financially advantageous terms, and we may need to initiate lawsuits, and incur legal fees and other costs, to force potential licensees to acknowledge our proprietary rights and enter into appropriate licenses.

We also rely on trade secrets, proprietary know-how and confidentiality provisions in agreements with employees, consultants, key customers and vendors to protect our intellectual property. Other parties may not comply with the terms of their agreements with us, and we may not be able to adequately enforce our rights against these people.

We are involved in patent litigation against ICOS Vision Systems Corp. N.V., and we will continue to incur significant legal costs.

In 2000, we instituted a lawsuit against ICOS Vision Systems Corp. N.V. for infringement of two of our patents. The patents related to three-dimensional ball array inspection apparatus and method. In June 2003, we reached a settlement concerning one-illumination source inspection systems. Pursuant to the settlement agreement, ICOS made a one-time payment of $400,000 to us to settle all issues with regard to these one-light source inspection systems. The court found no infringement with regard to the two-illumination source devices that ICOS sold. We agreed to the settlement in order to allow us to immediately appeal the court s ruling concerning inspection systems involving two light sources, eliminating the need, delay and expense of a trial with regard to these systems at this stage. In April 2004, the United States Court of Appeals ruled in our favor, finding that the claim terms an illumination apparatus and illuminating in our patents encompass one as well as more illumination sources and overturned the District Court s entry of summary judgment of no infringement. A trial, to be decided by the judge, was held in March 2005 in the U. S. District Court for the Southern District of New York regarding our ongoing litigation with ICOS. Scanner s prayer for relief includes requests for damages in the form of lost profits, a trebling of damages pursuant to 35 USC 284 and attorneys fees and costs. In

its answer to the complaint, ICOS included counterclaims alleging various forms of unfair competition as well as seeking a declaration that the patents are invalid and not infringed. In addition, ICOS is requesting attorneys fees and costs. The judge is not expected to issue his decision on the case before June 2005. We intend to continue to vigorously enforce our patent rights and may incur significant additional expenses in 2005 to pursue the lawsuit. There can be no assurance that we will prevail in such litigation and we may suffer an adverse result requiring us to pay damages or royalties adversely affecting our business.

Third parties may claim that we are infringing upon their intellectual property, and we could suffer significant litigation costs, licensing expenses or be prevented from selling our products.

Intellectual property rights are uncertain and involve complex legal and factual questions. We may be unknowingly infringing upon the intellectual property rights of others and may be liable for that infringement, which could result in significant liability for us. If we do infringe upon the intellectual property rights of others, we could be forced to either seek a license to those intellectual property rights or to alter our products so that they no longer infringe. A license could be very expensive to obtain or may not be available at all. Similarly, changing our products or processes to avoid infringing upon the rights of others may be costly or impractical.

We may become responsible for patent litigation costs. If we were to become involved in further disputes regarding intellectual property (in addition to the ongoing litigation against ICOS), whether ours or that of another company, we may have to participate in additional legal proceedings. These types of proceedings may be costly and time-consuming for us, even if we eventually prevail. If we do not prevail, we might be forced to pay significant damages, obtain licenses, modify our products or processes, stop making products or stop using processes.

Our success is highly dependent on our ability to retain our management team.

Our success depends, to a significant degree, on the efforts of Elwin M. Beaty, our President, Chief Executive Officer and Chief Financial Officer, and David P. Mork, Senior Vice President. There is no assurance that their services will remain available to us or that we will be successful under their management. We do have an employment agreement with each of Mr. Beaty and Mr. Mork, but the employment agreements may be terminated by either party with a thirty-day notice. We carry key person life insurance on Mr. Beaty but not on Mr. Mork.

Our dependence on a few significant customers exposes us to operating risks.

Sales to our three largest customers accounted for approximately 62% of our revenues in 2004. Our customers are able to cancel orders prior to shipment with few or no penalties. If a significant customer reduces orders or delays shipments for any reason, our revenues, operating results and financial condition will be negatively affected. In addition, our ability to increase our sales will depend in part upon our ability to obtain orders from new customers for whom there is intense competition.

We may lose customers because we started marketing our own systems to end-users.

In the past, we were selling our products exclusively to original equipment manufacturers for inclusion in their equipment and subsequent resale to the end-user. However, in 2003, we began marketing a line of products directly to end-users. Some of our current customers may consider us in the future as competitors with regard to the sale of inspection systems and stop buying our modules for inclusion in their equipment.

Our dependence on subcontractors and sole or limited source suppliers may prevent us from delivering an acceptable product on a timely basis and could result in disruption of our operations.

We rely on subcontractors to manufacture many of the components and subassemblies for our products and we depend on single or limited source suppliers for some of our components. Our reliance on subcontractors reduces the level of control we have over the manufacturing process and exposes us to significant risks such as inadequate capacity, late delivery, substandard quality and high costs.

If a supplier were to become unable to provide parts in the volumes needed or at an acceptable price, we would have to identify and qualify acceptable replacements from alternative sources of supply, or manufacture the components internally. We generally do not have written supply agreements with our single or limited source suppliers and purchase our custom components through blanket and individual purchase orders. If we were unable to obtain these components in a timely fashion, we may not be able to meet demands for future shipments. We believe that we would be able to find alternative solutions if supplies were unavailable from any of our sole source suppliers. This may take time, and the disruption would adversely affect our results of operations.

We assemble and test all of our vision inspection modules at one facility, and any disruption in the operations of that facility could adversely impact our business and operating results.

Our processes for manufacturing our automated inspection systems require sophisticated and costly equipment and specially designed facilities. The vision inspection modules that are sold to our OEM customers or built into the systems we are manufacturing ourselves are assembled at our facility in Minneapolis, Minnesota. Any disruption in the operation of that facility, whether due to technical or labor difficulties, destruction or damage from fire or earthquake, infrastructure failures such as power or water shortage or any other reason, could interrupt our manufacturing operations, impair critical systems, disrupt communications with our customers and suppliers and cause us to write off inventory and to lose sales.

Failure to adjust our orders for parts and subcomponents in an accurate and timely manner in response to changing market conditions or customer acceptance of our products could adversely affect our financial position and earnings.

Our earnings could be harmed and our inventory levels could materially increase if we are unable to predict our inventory needs in an accurate and timely manner and adjust our orders for parts and subcomponents should our needs increase or decrease materially due to unexpected increases or decreases in demand for our products. Any material increase in our inventories could result in an adverse effect on our financial position, while any material decrease in our ability to procure needed inventories could result in an inability to supply customer demand for our products thus adversely affecting our revenues.

When we are required to account for stock options and warrants as a compensation expense, our net income and earnings per share may be significantly reduced.

Some companies have begun to account for stock options and warrants as compensation expense thus resulting in a reduction of their net income and earnings per share. We currently grant all options and warrants at fair market value or above and do not record compensation expense in connection with the grants. Beginning with the first quarter of the year ending December 31, 2006, we will be required to record the fair market value of all stock options and warrants as compensation expense in our consolidated financial statements and, as a result, our net income and earnings per share may be significantly reduced.

Increased competition could impair sales of our products or cause us to reduce our prices.

We expect our current competitors and other companies to continue to improve the design and performance of their products and to introduce new products with competitive prices and performance characteristics. Competitive pressures may from time to time require us to selectively reduce prices on our systems in an effort to protect our market share. Even if we reduce prices, our potential customers may choose to purchase competing products developed by our competitors, many of whom have development, production, marketing and distribution resources significantly greater than our own. Price reductions or lost sales as a result of these competitive pressures would reduce our total revenues and adversely impact our financial results.

We have accumulated a deficit.

We had an accumulated deficit in the total amount of $3,300,668 as of March 31, 2005 compared to deficits in the total amount of $2,387,248 and $3,439,972 as of December 31, 2004 and 2003, respectively. We believe the general improvement in industry conditions contributed to the improvement in Scanner s operations in 2004, whereas operations in 2005 are adversely affected by a lack of demand in the semiconductor marketplace. We will continue to be subject to the cyclical nature of the semiconductor marketplace. However, even if the economic situation in general and the situation of the semiconductor industry in particular improves in the future, there is no guarantee that we will be able to eliminate the deficit and operate our business profitably.

We are effectively controlled by our management, which may limit a shareholder s ability to influence shareholder matters or to receive a premium for shares through a change in control.

Our executive officers and directors and their affiliates own 8,012,178 shares of our common stock (including immediately exercisable warrants to purchase 1,614,064 shares and exercisable options to purchase 400,000 shares), or 56.3%, of the outstanding shares of common stock (assuming the exercise of all exercisable warrants and options held by officers and directors). As a result, they effectively control us and direct our affairs and have significant influence in the election of directors and approval of significant corporate transactions. The interests of these shareholders may conflict with those of other shareholders. This concentration of ownership may also delay, defer or prevent a change in control of our company, and some transactions may be more difficult or impossible without the support of these shareholders.

Our stock price is volatile, and you may not be able to resell your shares at or above the price at which you acquired your shares.

The market price of our common stock has been subject to significant volatility, and trading volume historically has been low. Factors affecting our market price include:

- our perceived prospects;
- negative variances in our operating results, and achievement of key business targets;
- limited trading volume in shares of our common stock in the public market;
- sales or purchases of large blocks of our stock;
- changes in, or our failure to meet, our earnings estimates;
- changes in securities analysts buy/sell recommendations;
- differences between our reported results and those expected by investors and securities analysts;
- announcements of new contracts by us or our competitors;
- announcements of legal claims against us;
- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;

- developments in the financial markets;
- general economic, political or stock market conditions; and
- lack of adequate analyst and broker coverage.

In addition, our stock prices may fluctuate in ways unrelated or disproportionate to our operating performance. The general economic, political and stock market conditions that may affect the market price of our common stock are beyond our control. The market price of our common stock at any particular time may not remain the market price in the future. In the past, securities class action litigation has been instituted against companies following periods of volatility in the market price of their securities. Any such litigation, if instituted against us, could result in substantial costs and a diversion of management s attention and resources.

Our stock is quoted on the Over-The-Counter Bulletin Board (OTCBB).

Our common stock is quoted on the OTCBB under the symbol SCNI. Our listing on the OTCBB limits our ability to raise money in an equity financing because most institutional investors do not consider OTCBB stocks for their portfolios. Your ability to trade in our stock is limited due to the fact that only a limited number of market makers quote our stock on the OTCBB. Trading volume in OTCBB stocks is historically lower, and stock prices of OTCBB stocks are more volatile, than stocks traded on an exchange or the Nasdaq Stock Market. There is no guarantee that we will ever qualify for trading on an exchange or the Nasdaq Stock Market.

Our stock is subject to the Penny Stock rules, which may make it difficult for you to sell your shares.

In addition, our common stock is subject to certain rules of the Securities and Exchange Commission relating to so-called penny stock. Penny stocks are generally defined as any security not listed on a national securities exchange or the Nasdaq Stock Market, priced at less than $5.00 per share and offered by an issuer with limited net tangible assets and revenues. Broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. This document provides information about penny stocks and the nature and level of risks involved in investing in the penny-stock market. A broker must also give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser, and obtain the purchaser s written agreement to the purchase.

The penny stock rules may make it difficult for you to sell your shares of our stock. Because of the rules, there is less trading in penny stocks. Also, many brokers choose not to participate in penny stock transactions. Accordingly, you may not always be able to resell shares of our common stock publicly at times and prices that you feel are appropriate.

We do not anticipate declaring any cash dividends on our common stock.

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and earnings for use in the operation and expansion of our business.

The market price of our common stock may drop significantly when this registration statement is declared effective.

Future sales of substantial amounts of shares of our common stock in the public market, or the perception that these sales could occur, could adversely affect the prevailing market price of our common

stock and could impair our ability to raise additional capital through future sales of equity securities. Including the securities offered by the selling shareholders pursuant to this prospectus, as of May 31, 2005, 12,216,068 shares of our common stock, and options and warrants to acquire an aggregate of 5,026,432 shares of our common stock were issued and outstanding. The market price of our common stock could decline significantly as a result of sales of a large number of shares of our common stock in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities in the future at a price that we think is appropriate, or at all.

DILUTION

This offering is for sales of stock by the selling shareholders on a continuous or delayed basis in the future. Sales of common stock by such shareholders will not result in a change to the net tangible book value per share before or after the distribution of shares by the selling shareholders. There will be no change in net tangible book value per share attributable to cash payments made by purchasers of the shares being offered. Prospective investors should be aware, however, that the market price of our shares might not bear any rational relationship to net tangible book value per share.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares offered pursuant to this prospectus. The selling shareholders will receive all of the proceeds from the sale of the shares of common stock offered by this prospectus.

The selling shareholders will pay any expenses incurred by them for brokerage, accounting or tax services or any other expenses incurred by the selling shareholders in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration and filing fees and fees and expenses of our counsel and our accountants.

MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Dividends

We have never paid cash dividends on its Common Stock and do not intend to do so in the foreseeable future. Scanner currently intends to retain its earnings for the operation and expansion of its business. Our continued need to retain earnings for operations and expansion is likely to limit our ability to pay future cash dividends.

Market Information

Scanner s Common Stock is currently quoted on the National Association of Securities Dealers, Inc. Over-the-Counter Bulletin Board (OTCBB) under the symbol SCNI. The following table sets forth, for the period from January 1, 2003 through March 31, 2005, the range of high and low bid information for our Common Stock on the OTCBB. The prices represent quotations between dealers without adjustment for retail markups, markdowns, or commissions and may not represent actual transactions.

	2005		2004		2003	
	High	Low	High	Low	High	Low
First Quarter	3.15	2.34	1.85	1.10	3.25	1.75
Second Quarter			3.50	1.65	4.25	2.05
Third Quarter			3.05	2.11	2.90	1.50
Fourth Quarter			2.94	1.50	1.65	1.05

The shares of Common Stock are subject to various governmental or regulatory body rules, including the Securities Act of 1933 and regulations thereto, the Securities Act of 1934 and regulations thereto, and rules promulgated by NASD, which may affect the liquidity of the shares.

Holders

There were approximately 900 holders of record of Scanner s Common Stock as of May 31, 2005.

MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General

We generate revenues from the sale of machine-vision inspection devices 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, as well as complete machine-vision inspection systems that we 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 of sales and revenue recognition.

During recent years, our operations were adversely affected by a lack of demand in the semiconductor marketplace, which caused many of our potential customers to cease or defer purchases of capital equipment such as the inspection equipment offered by Scanner. According to information provided by Semiconductor Equipment and Materials International (SEMI), a trade association of semiconductor equipment and material manufacturers, sales of semiconductor equipment for 2004 totaled $37.08 billion, but are expected to decline in 2005 to a total of $33.49 billion. SEMI expects the market for semiconductor equipment to bounce back in 2006 and to increase by 3.07% to $34.52 billion, before growing 14.76% in 2007, to $39.61 billion. We believe the general improvement in industry conditions contributed to the improvement in Scanner s operations in 2004, whereas operations in 2005 are adversely affected by a lack of demand in the semiconductor marketplace. We will continue to be subject to the cyclical nature of the semiconductor marketplace.

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 size of defects detected, ease of use and technological advancement. During 2003, we commenced sales of our VisionFlex inspection systems that were introduced in July 2002. We must continue research and development to improve existing products and introduce new products in order to compete effectively with other providers of inspection equipment.

We believe we hold a strong position with respect to our proprietary rights in key technology. In March 2005, we completed a trial relating to our patent infringement lawsuit against ICOS Vision Systems Corp. N.V. and, as of the date of this prospectus, are awaiting the court s ruling. We are reviewing the possibility of licensing our technologies to third parties to provide additional revenues.

Our working capital position improved in 2004 primarily due to profitable operations and to the sale of common stock and warrants in a private placement, the exercise of warrants and the payments of notes receivable for common stock. During the three months ended March 31, 2005 the working capital position decreased primarily due to the net effect of the operating loss offset by the exercise of stock options. We believe that our working capital at March 31, 2005 and the current line of credit are adequate for at least the next twelve months of operations and do not currently anticipate a need for additional financing.

Critical Accounting Policies

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 affect its more significant judgments and estimates used in the preparation of its condensed consolidated financial statements.

Revenue recognition;
Allowances for doubtful accounts and excess and obsolete inventories;
Patent rights;
Accounting for income taxes;
Accounting and 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 Scanner 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 uncollectable 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.

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 and obsolete inventories equal to the difference between the cost of inventories and the estimated fair value based on assumptions about future demand and market conditions.

Patent rights are stated at cost less accumulated amortization. Amortization is provided using the straight-line method over six years. Patent rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. This evaluation is performed at least annually. An impairment loss is recognized when estimated cash flows to be generated by those assets are less than the carrying value of the assets. When impairment loss is recognized, the carrying amount is reduced to its estimated fair value, based on appraisals or other reasonable methods to estimate value.

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.

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

We estimate the fair value of warrants at the grant date using the Black-Scholes option pricing model. The model takes into consideration weighted average assumptions related to the following: risk-free interest rate; expected life years; expected volatility; and expected dividend rate. Since Scanner s stock is thinly traded, we are essentially a nonpublic entity. Therefore, volatility is set at 0% as permitted by SFAS No. 123.

Liquidity and Capital Resources for the three-month period ended March 31, 2005

In 2004, we renewed our previous line of credit through August 1, 2005. The line was decreased by $600,000 from $1,300,000 to $700,000 with an interest rate at prime (5.75% at March 31, 2005), and we provided the bank with a security interest in its general business assets. The line is guaranteed by five individuals who received three-year warrants to purchase 175,000 shares of common stock at $3.50 per share for their financial support. Our outstanding indebtedness under the line was $490,000 at March 31, 2005.

We believe that the line of credit, existing working capital and anticipated cash flows from equity investments will be adequate to satisfy projected operating and capital requirements for the next 12 months.

Net cash used by operating activities for the three months ended March 31, 2005 totaled $291,171. Negative operating cashflows resulted primarily from the net loss of $913,420 for the period being offset by net non-cash adjustments of $53,667 relating primarily to stock option compensation expense and depreciation and amortization and by net changes in operating assets and liabilities of $568,582 relating primarily to a decrease in receivables and an increase in accounts payable.

Net cash used by investing activities for the three months ended March 31, 2005 totaled $5,638. The funds were used to purchase property and equipment.

Net cash provided by financing activities for the three months ended March 31, 2005 totaled $79,500. The amount relates to proceeds from the exercise of stock options.

At December 31, 2004, our obligations and commitments to make future payments under debt and lease agreements