NANOPIERCE TECHNOLOGIES INC
Form 10KSB
September 29, 2003

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

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED: JUNE 30, 2003

OR

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

Commission file number: 33-19598-D

NANOPIERCE TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Nevada	84-0992908
(State of other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

370 Seventeenth Street, Suite 3640
Denver, Colorado 80202
(Address and zip code of principal executive office)

(Former address of principal executive office)

Registrant's telephone number, including area code: (303) 592-1010
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

(Title of Class)	Name of Each Exchange On Which Registered
Common Stock, $0.0001 Par Value	NASDAQ:BB Frankfurt Exchange Hamburg Exchange

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

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III or this Form 10-KSB or any amendment hereto. [X]

As of the close of trading on September 26, 2003, there were 66,023,969 shares outstanding, 57,474,937 of which were held by non-affiliates. The aggregate market value of the common shares held by non-affiliates, based on the average closing bid and asked prices on September 26, 2003, was approximately $15,518,233.

The registrant's revenue for the fiscal year ended June 30, 2003 was $37,017.

Transitional Small Business Disclosure Yes No X

PART I

ITEM 1. DESCRIPTION OF BUSINESS

COMPANY OVERVIEW

NanoPierce Technologies, Inc. (the "Company") is a Nevada corporation that was incorporated on June 22, 1996, as Sunlight Systems, Ltd. From June 22, 1996 through November 1996 the Company engaged in limited activities as a dealer and distributor of sun tunnels. This business, however, was discontinued and substantially all assets were sold in November of 1996. From that time until February 1998, the Company was generally inactive and reported no significant operating revenues.

On February 26, 1998, the Company acquired the intellectual property rights related to the Company's patented Particle Interconnect Technology (the "PI Technology") from Particle Interconnect Corporation ("PI Corp"), a Colorado Corporation, and a wholly owned subsidiary of Intercell Corporation (now known as Intercell International Corporation, hereinafter "Intercell"), a Nevada Corporation. In exchange for the assets of PI Corp, the Company issued 7,250,000 shares of its common stock and 100 shares of the Company's Series A Preferred Stock (convertible into 7,250,000 common shares) to Intercell. Intercell, subsequently converted the 100 shares of the Series A Preferred Stock in June 1999 for 7,250,000 common shares. As of June 30, 2003, Intercell held 6,376,764 common shares of the Company. The Company acquired the PI Technology in order to pursue a more focused, strategic application and development of the PI Technology, subsequently referred to as the NanoPierce Connection System ("NCS(TM)")

The Company, since the acquisition of NCS, has focused on providing the

electronics industry with possible solutions to their "connection" problems, through not only know-how, but also products and services provided by either the Company or its subsidiaries.

The Company has three wholly owned subsidiaries.

NANOPIERCE CARD TECHNOLOGIES, GMBH ("NANOPIERCE CARD" OR "NCT"). Established in January 2000, NanoPierce Card is located in Hohenbrunn, Germany. NanoPierce Card was responsible for the marketing of the Company's technology, services and products on an international basis. On April 1, 2003, NCT filed insolvency with the Courts of Munich, Germany. The insolvency was necessary in order to comply with specific German legal requirements. In conjunction with the insolvency filing, management made a decision in April 2003 to discontinue operations at NanoPierce Card and liquidate NanoPierce Card, through the German courts or through self-liquidation. Subsequently, the Court rejected the application for insolvency and the Company is, at this time, implementing a plan of self-liquidation as provided by German law.

NANOPIERCE CONNECTION SYSTEMS, INC. ("NANOPIERCE CONNECTION" OR "NCOS"). NanoPierce Connection is a Nevada corporation, located in Colorado Springs, Colorado, USA. Beginning business in January 2002, NanoPierce Connection is the center of not only research and development activities, but also the development of various applications of the NCS. In addition, NanoPierce Connection provides the WaferPierce(TM) service to potential customers. In September 2003, the Company entered into a joint venture with Scimaxx, LLC in order to further the marketing of the services offered by NanoPierce Connection (See - Item 6 "Management's Discussion and Analysis").

EXYPNOTECH, GMBH ("EXYPNOTECH" OR "EPT"). ExypnoTech was organized in February 2002. ExypnoTech produces inlay components used in the manufacturing of, among other things, Smart Labels. ExypnoTech, in addition to the inlay components, plans to manufacture and sell other types of RFID (Radio Frequency Identification) components.

In September 2003, the Company signed a letter of intent with Meshed Systems, GmbH, in which Meshed Systems, GmbH is to make an equity investment in ExypnoTech in exchange for a 51% equity interest in ExypnoTech. (See - Item 6 "Management's Discussion and Analysis")

THE TECHNOLOGY

NCS(TM) is a method where metallized, hard, microscopic particles are deposited onto one of two contact surfaces, through electrolytic or electro-less plating methods or other methods. When the two surfaces are pressed together, the conductive particles penetrate the second contact surface and create an electrical connection. Bonding of the contact surfaces can be achieved using nonconductive adhesives or ultrasonic welding.

NCS can be used with many different substrates (flexible, rigid, metallic and non-metallic), allowing NCS to replace more conventional methods of making electrical contacts, such as soldering, spring-loading, pin-in-hole connections and conventional "flip chip" attachment. In addition, NCS can be used to form either temporary or permanent connections.

NCS provides several advantages to potential users among which are; lower costs through the usage of less expensive materials; the elimination of manufacturing steps; improved thermal and electrical properties; elimination of special environments for application; decreased production time; easy integration into existing production lines; increased design miniaturization;

adaptability for specific applications and RF (radio frequency) performance.

The Company has extended NCS to permit the direct attachment of semiconductor chips to a substrate, a process called WaferPierce(TM). WaferPierce is comprised of two parts: (1) the electroless application of NCS to the contact pads of chips while still in wafer form; and (2) a proprietary chip attachment process in which chips are bonded to a substrate face down using the core NCS method.

WaferPierce offers both cost and performance benefits over the current methods of chip attachment. These benefits include the simplification and acceleration of chip assembly, reduction of substrate costs and economic wafer preparation. In addition, WaferPierce has several functional advantages, such as, good electrical and thermal conductivities, reliability, thinness and good high frequency characteristics and the absence of lead.

The Company currently holds 12 Patents with the U.S. Patent and Trademark Office. Further, the Company has filed several patent applications both in the United States and internationally in order to continue to protect its intellectual property. The Company has also filed trademark applications with the U.S. Patent and Trademark Office to protect its name, logo and other trademarks.

During the fiscal year ended June 30, 2003, the Company incurred an expense of $200,000 in connection with the impairment of the original intellectual property owned by the Company. The decision to record an impairment of the intellectual property was based primarily on the overall age of the patents in the intellectual property combined with the Company's current operational status. This impairment is not indicative of the value of the technology and the current value of the patent applications and trademark applications the Company has filed both in the United States and internationally. (See - "Notes to the Consolidated Financial Statements - Note 1")

BUSINESS STRATEGY

The Company has developed a business strategy to penetrate all possible markets with its technology, with the ultimate plan to make NCS the preferred technology in these markets. The Company currently provides potential customers with three possible ways to gain access to the NCS technology.

1. WAFERPIERCE SERVICE. Through its subsidiary, NanoPierce Connection, the Company is able to provide a WaferPiercing service to its customers. NanoPierce Connection is currently providing this service in developing samples for potential customers.

2. LICENSING. For those customers needing NCS or WaferPierce on a larger scale than the Company is able to provide at this time through NanoPierce Connection, the Company is willing to provide a license to the customer, to transfer know-how in connection with various aspects or applications of NCS and WaferPierce.

3. RFID COMPONENTS. The Company, through ExypnoTech currently has the capability to provide RFID components, using NCS to potential customers. In addition, ExypnoTech, in manufacturing the RFID components, uses chips that have been treated using the WaferPierce process. ExypnoTech has signed contracts with several customers to provide RFID components. In the future, the Company plans to continue to utilize the strategy of providing the final product to the user in those markets where it is economically practical.

While there are numerous possible applications for NCS and WaferPierce, the Company has decided to focus, at this time, on those specific applications that are low cost and experience high volumes.

1. RFID COMPONENTS. RFID components are used to identify objects, by short-range radio over a few millimeters to distances as great as a meter. RFID inlays consist of a small transponder chip bonded onto a metal foil antenna on an exceptionally thin and small plastic or paper sheet. NCS can be used to provide the connection between the transponder chip and the antenna. In addition, NCS can be used to connect the chip to the chip module in contact smart cards or the chip module to the antenna in the case of contactless smart cards. There are many different applications for RFID components, but the two applications being focused on by the Company are Smart Labels and Smart Cards. The Company currently offers RFID Components using NCS through its subsidiary, ExypnoTech.

2. WAFERPIERCE SERVICE. Wafers are 2, 4, 6, 8 or 12 -inch silicon or other substrate material used in the process of making chips with integrated circuits in the semiconductor industry. NCS can be used as a method of a chip attachment to the actual substrate, replacing conventional flip chip processes used to remove chips and attach them to substrates.

3. OTHER APPLICATIONS. The applications described above are not the only possible applications for NCS; other viable applications include connectors and sockets in both printed and flexible circuit boards. Further applications include temporary applications, such as test connectors, sockets and switches.

In addition to the development and marketing of NCS, the Company through NanoPierce Card, has generated revenues during the last two fiscal years through software development and project management for various customers in industries with potential NCS applications.

For the fiscal year ended June 30, 2003, the Company recognized $128,947 in revenue from its software development activities, which were discontinued effective April 1, 2003.

RESEARCH AND DEVELOPMENT

Research and development activities are conducted through NanoPierce Connection, with additional activities occurring at NanoPierce Card and ExypnoTech. For the fiscal years ended June 30, 2003 and June 30, 2002, NanoPierce Connections and ExypnoTech incurred $316,403 and $316,438 in research and development expenses from continuing operations. NanoPierce Card incurred $251,354 and $320,908 in 2003 and 2002, respectively, which is classified as a component of loss from discontinued operations in the Company's consolidated statements of operations.

COMPETITION

Competition in the electronic connector market is fierce. The principal competitive factors are product quality, performance, price and service. The Company and its licensees face competition from well-established firms with other interconnect technologies.

The Company will face competition from the development of existing and

future competing technologies. There currently exists approximately 28 different technologies that can be used to create interconnect solutions, including dendrite crystals, gold dot technology, anisotropic technology (technologies using materials whose behavior differs in the up/down and left/right directions), elastomerics (rubber-like synthetic materials) and Z-axis conductive adhesives. These technologies currently are produced by materials and chemical suppliers, flexible and rigid printed circuit board manufacturers, as well as electronics manufacturers who produce their own materials and interconnect systems. Many of these competitors have substantially greater financial and other resources than the Company. The Company believes that each existing technology currently has unacceptable limitations with regard to electrical/mechanical performance, manufacturability or cost as compared to NCS. However, there are no assurances that the Company or the NCS can successfully compete with current or future technologies.

GOVERNMENT REGULATION

The Company believes that it is in compliance with all federal and state laws and regulations governing its limited operations. Further, the Company believes that it is in compliance with all German laws and regulations governing its limited operations in Germany. Compliance with federal and state environmental laws and regulations did not have a material effect on the Company's capital expenditures, earnings or competitive position during the fiscal year ended June 30, 2003.

EMPLOYEES

On June 30, 2003, the Company and its subsidiaries had 10 employees. Messrs. Metzinger, Neuhaus and Ms. Kampmann, key officers of the Company, have signed employment agreements with the Company or its subsidiaries. (See- Item 9- "Directors and Officers of the Company") None of the Company's employees are represented by a labor union or are subject to a collective bargaining agreement. The Company believes that its relations with its employees are excellent.

ITEM 2. DESCRIPTION OF PROPERTIES

The Company's corporate headquarters are located at 370 17th Street, Suite 3640, Denver, Colorado 80202. The Company moved into its current office space on June 27, 2001 and has a 5-year lease on the property, expiring in September 2006. Intercell maintains an administrative office on the premises.

NanoPierce Connection is located at 4180 Center Park Drive, Colorado Springs, Colorado 80916. The Company currently has a 3-year lease on the property, expiring in March 2006. From these facilities research and development activities in connection with application development take place. The facility also has a clean room for use in the WaferPierce process.

NanoPierce Card, during the fiscal year ended June 30, 2003, leased offices located at Lise-Meitner-Strasse 1, D-85662 Hohenbrunn, Germany. From these offices marketing, software development and additional research and development activities took place through March 31, 2003.

ExypnoTech leases production space located at Professor-Hermann-Klare-Strasse 6, D-07407 Rudolstadt, Germany. ExypnoTech has a 5-year lease on the facilities, expiring in March 2007. The lease can be cancelled with a notice period of 6 months. ExypnoTech also used the facilities of NanoPierce Card for certain administrative tasks.

ITEM 3. LEGAL PROCEEDINGS

DIFRANCESCO LITIGATION

The Company and Louis DiFrancesco, the inventor of the PI Technology, were involved in litigation relating to NanoPierce's ownership of its intellectual property and the rights as to who should receive royalty payments from licenses, which were outstanding as of September 3, 1996. In October 2002, the Company and DiFrancesco signed a settlement agreement enforced by Court Order. The Court Order declares that the Company owns the entire, exclusive, incontestable ownership, right, title and interest in the patents. The Court Order further declares that Mr. DiFrancesco owns the sole, exclusive, and incontestable right to receive and collect all royalties and other payments from all licenses outstanding on September 3, 1996. Pursuant to the settlement agreement, Mr. DiFrancesco was also granted a limited, two-year, non-transferable, royalty-bearing license with no right to sublicense.

HARVEST COURT LITIGATION

In connection with a financing obtained in October 2000, the Company filed various actions in the United States District Court for the District of Colorado against, among others, Harvest Court, LLC, Southridge Capital Investments, LLC, Daniel Pickett, Patricia Singer and Thomson Kernaghan, Ltd. for violations of federal and state securities laws, conspiracy, aiding and abetting and common law fraud among other claims. The Company is seeking various forms of relief including actual, exemplary and treble damages. As a result of various procedural rulings in January 2002, the United States District Court for the District of Colorado transferred the case to the United States District Court for the Southern District of New York, New York City, New York. In July 2003, Harvest Court, LLC filed counterclaims, in this proceeding, against the Company, Mr. Metzinger, Ms. Kristi Kampmann, Dr. Herbert Neuhaus, Dr. Robert Shaw and unrelated third parties in the United States District Court for the Southern District of New York, New York City, New York. The suit alleges violations of federal securities laws and common law fraud among other claims. Harvest Court is seeking various forms of relief including compensatory and punitive damages. The Company is preparing appropriate responsive pleadings.

In May 2001, Harvest Court, LLC filed suit against the Company in the Supreme Court of the State of New York, County of New York. The suit alleges that the Company breached an October 20, 2000 Stock Purchase Agreement, by not issuing 7,418,895 free trading shares of the Company's common stock in connection with the reset provisions of the Purchase Agreement due on the second reset date and approximately 4,545,303 shares due in connection with the third reset date. Harvest Court, LLC is seeking the delivery of such shares or damages in the alternative. In August 2001, the Supreme Court of the State of New York, County of New York issued a preliminary injunction ordering the Company to reserve and not transfer the shares allegedly due to Harvest Court. The Company has filed counterclaims seeking various forms of relief against Harvest Court, LLC.

OTHER LITIGATION

In September 2001, litigation was filed by Thomson Kernaghan & Co., Ltd. against the Company and certain officers/directors of the Company seeking damages for defamation. Thomson Kernaghan & Co., subsequently filed for protection under Canadian bankruptcy laws. In December 2002 this action was dismissed by the Trustee.

Other than the above mentioned lawsuits, to the knowledge of the management

of the Company, there are no material legal proceedings pending or threatened (other than routine litigation incidental to business) to which the Company (or any officer, director, affiliate of beneficial owner of more than 5% of the Company's voting securities) is party, or to which property of the Company is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no meetings of security holders during the period covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

The common stock is presently traded on the over-the-counter market on the OTC Bulletin Board maintained by the National Association of Securities Dealers, Inc. (the "NASD") The NASDAQ symbol for the Common Stock is "NPCT". The common stock of the Company is also traded on the Frankfurt Exchange and the Hamburg Exchange under the symbol "NPI".

The following table sets forth the range of high and low quotations for the common stock of each full quarterly period during the fiscal year or equivalent period for the fiscal periods indicated below. The quotations were obtained from information published by the NASD and reflect interdealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

2002 FISCAL YEAR	HIGH	LOW
September 30, 2001	$0.70	$0.64
December 31, 2001	0.70	0.67
March 31, 2002	1.54	1.42
June 30, 2002	0.96	0.91
2003 FISCAL YEAR		
September 30, 2002	0.60	0.56
December 31, 2002	0.63	0.61
March 31, 2003	0.30	0.28
June 30, 2003	0.32	0.28

As of June 30, 2003, there were approximately 339 holders of record of the Company's common stock.

DIVIDEND POLICY

The Company has not paid any cash dividends on its common stock in the past and does not anticipate paying any dividends in the foreseeable future. Earnings, if any, are expected to be retained to fund future operations of the Company. There can be no assurance that the Company will pay dividends at any time in the future.

RECENT SALES OF UNREGISTERED SECURITIES

The Company made the following unregistered sales of its securities from March 31, 2003 through June 30, 2003.

DATE	TITLE OF SECURITIES	NO. OF SHARES	CONSIDERATION	PURCHASER
4/3/03	Common Stock	1,333,334	Financing	Neptune Investment Group, Ltd.
4/3/03	Warrant	1,333,334	Financing	Neptune Investment Group, Ltd.
6/20/03	Common Stock	240,842	Financing	John Provazek

EXEMPTION FROM REGISTRATION CLAIMED. The issuance by the Company of its unregistered securities was made by Registrant in reliance upon Section 4(2) of the Securities Act of 1933, as amended. The persons, who received the unregistered securities, were employees of the Company. The persons were provided access to all material information, which it requested, and all information necessary to verify such information and were afforded access to management of the Company in connection with the issuance. The persons, who received such unregistered securities, acquired such securities for investment and not with a view toward distribution acknowledging such intent to the Company. All certificates or agreements representing the securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain statements contained in this Form 10-KSB contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties that could cause actual results to differ materially from the results, financial or otherwise, or other expectations described in such forward-looking statements. Any forward-looking statement or statements speak only as of the date on which such statements were made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statements are made or reflect the occurrence of unanticipated events. Therefore, forward-looking statements should not be relied upon as prediction of actual future results.

The independent auditors' report on the Company's financial statements as of June 30, 2003, and for each of the years in the two-year period then ended, includes a "going concern" explanatory paragraph, that describes substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to the factors prompting the explanatory paragraph are discussed below and also in Note 2 to Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

On April 1, 2003, NCT filed insolvency with the Courts of Munich, Germany. The insolvency filing was necessary, in the view of the Company, in order to comply with specific German legal requirements. NCT is presented as discontinued operations in the Company's consolidated financial statements. During the year ended June 30, 2003, NCT had losses of $882,718 compared to losses of $782,858 during the year ended June 30, 2002. In September 2003, the court rejected the application for insolvency and the Company is now under self-liquidation in accordance with German law.

The Company recognized $37,017 of revenues from continuing operations during the fiscal year ended June 30, 2003 compared to $4,737 in the fiscal year ended June 30, 2002. Revenues recognized by discontinued operations were $128,947 during the fiscal year ended June 30, 2003 and $151,392 for the fiscal year ended June 30, 2002. The revenue generated from discontinued operations was from various software development contracts generated by NanoPierce Card and the remaining $37,017 was from the preparation of samples using WaferPierce for potential customers by NanoPierce Connection ($3,900) and the sale of inlays by ExypnoTech ($33,117). The Company expects to continue to generate revenues through its subsidiaries, NanoPierce Connection and ExypnoTech.

The Company recognized $7,251 in interest income during the fiscal year ended June 30, 2003 compared to $98,574 during the fiscal year ended June 30, 2002. The decrease of $91,323 is due primarily to the need for capital to support operations throughout the year.

Total operating expenses from continuing operations during the fiscal year ended June 30, 2003 were $3,179,297, compared to $4,049,525 for the fiscal year ended June 30, 2002. The decrease of $870,228 is attributable to a decrease in operational activities and spending over the year, as described below.

General and administrative expenses during the fiscal year ended June 30, 2003 were $2,414,077 compared to $3,516,534 for the fiscal year ended June 30, 2002. The decrease of $1,102,457 is mainly attributable to decreases in legal expenses, payroll and investor relations. In April 2001, the Company issued 3,125,000 of its common shares, valued at $1,000,000 in connection with legal costs related to the Harvest Court Litigation, as part of a Contingency Fee Agreement, to cover expenses to be incurred on its behalf. The Company amortized the value of the shares, over a one-year period. Prior to July 1, 2001, $175,343 was amortized. The remaining $824,657 was amortized during the fiscal year ended June 30, 2002. Selling and marketing expenses during the fiscal year ended June 30, 2003 were $238,817 compared to $112,178 during the fiscal year ended June 30, 2002. The increase of $126,639 was due to an increase in marketing activities, including appearances at various trade shows. Research and development expenses during the fiscal year ended June 30, 2003 were $316,403 compared to $316,438 for the fiscal year ended June 30, 2002.

During the fiscal year ended June 30, 2003, the Company incurred an expense of $200,000 in connection with the impairment of the original intellectual property owned by the Company. The decision to record an impairment of the intellectual property was based primarily on the overall age of the patents underlying the intellectual property combined with the Company's current operational status. This impairment is not indicative of the value of the technology and the current value of the separate and independent patent applications and trademark applications the Company has filed both in the United States and internationally.

During the fiscal year ended June 30, 2003, the Company incurred an expense of $10,000 in connection with the impairment of the WaferPierce System bought and modified by Company for the application of NCS on wafers. This impairment

is not indicative to the value of the technology, nor does the Company believe that it limits the Company's ability to market NCS. The Company does not believe that there has been any impairment to other long-lived assets as of June 30, 2003.

During the fiscal year ended June 30, 2002, the Company incurred an expense of $104,375 in connection with the impairment of equipment built by the Company to develop the application of the NanoPierce Connection System (NCS(TM)) on flexible substrates. Given the Company's focus on the application of NCS at the wafer-level and based on management's operational plans and developments for the future, it was decided that because the equipment had no resale value to the Company, to write off the carrying value of the equipment. This write off is not indicative to the value of the technology, nor does the Company believe that it limits the Company's ability to market NCS in markets using flexible substrates.

During the fiscal year ended June 30, 2003, the Company recognized a net loss of $4,017,785 compared to a net loss of $4,729,072 during the fiscal year ended June 30, 2002. The decrease of $711,287 is explained by the decrease of $870,228 in operating expenses, offset by a $91,323 decrease in interest income and a $99,860 increase in the loss from discontinued operations between 2003 and 2002.

LIQUIDITY AND FINANCIAL CONDITION

Net cash used in operating activities from continuing operations in 2003 was $1,754,247, compared to net cash used in operating activities from continuing operations in 2002 of $2,777,705. In 2003, the net cash used represented a net loss of $4,017,785, adjusted for the loss from discontinued operations of $882,718, amortization and depreciation expense of $416,250, impairment charges of $210,000, and changes in operating assets and liabilities and other adjustments which net to $754,570.

In 2002, the net cash used represented a net loss of $4,729,072, adjusted for the loss from discontinued operations of $782,858, amortization and depreciation expense of $1,142,334, impairment charges of $104,375, and changes in operating assets and liabilities and other adjustments which net to ($78,200).

During the year ended June 30, 2003 the Company sold 7,340,348 shares of common stock and granted warrants to purchase 6,024,525 shares of common stock at exercise prices ranging from $0.15 to $0.60 for $1,826,766 (net of offering costs of $75,500). The warrants are exercisable through 2008 and contain a cashless exercise provision. The funds were raised to support operations.

During the fiscal year ended June 30, 2003, the Company entered into a 12-month financial advisory and exclusive placement agent agreement with a third party (the "Placement Agent"). Under the terms of the agreement, the Placement Agent is to act as the financial advisor to the Company and as its exclusive placement agent for a private placement of equity securities during the twelve-month term of the agreement. Compensation consists of a retainer fee (deferred consulting costs of approximately $230,400) which consists of a warrant to purchase up to 450,000 shares of the Company's common stock. Compensation also includes a $10,000 monthly advisory fee, payable in cash beginning in June 2003. In addition, the Company is exploring other financing opportunities to support continuing operations.

In June 2003, an officer/director of the Company loaned $10,000 to the Company in exchange for an unsecured 7% note payable due in December 2003. At June 30, 2003, the note balance was $10,000 and related accrued interest was $38.

In April 2002, the Company entered into a $2,000,000 equity financing. The Company received the first of two available tranches of $1,000,000 per tranche ($900,000 net of $100,000 of offering costs) and in return issued 800,000 free trading common shares to the investor. In addition, the Company issued 1,073,000 of its free-trading common shares, which are being held by an escrow agent for the potential issuance upon exercise of the warrants issued in connection with the financing. Such warrants have a term of five years, with an exercise price of $1.45 per share. The second tranche of $1,000,000 was made available to the Company sixty days after the take down of the first. The Company declined to take down the second tranche, due to depressed market conditions, at that time, and possible dilutive effects on its stock. The second tranche is no longer available to the Company, pursuant to terms of expiration.

During the fiscal year ended June 30, 2001, the Company loaned $500,000 to an unrelated third party, Global Capital Partners, Inc. ("Global") in exchange for a 12% note receivable due in November 2001. Through June 30, 2002, principal payments of $230,291 were received. In October 2002 the remaining principal of $144,709 was received in full.

In April 2002, the Company loaned $50,000 to a representative of the unrelated third party, which had been assigned the Global note, in exchange for a unsecured, 8% note receivable due in October 2002. In May 2002, the Company received $23,930. In September 2002, the remaining principal balance of $26,859 was received.

At July 1, 2001, the Company also had a $300,000 loan receivable from a third party. In September 2001, the outstanding amount was received.

At July 1, 2001, the Company had an unsecured note receivable from Intercell of $92,500. During the year ended June 30, 2002, the Company advanced an additional $35,000 to Intercell. The entire amount was collected by June 30, 2002.

During the fiscal year ended June 30, 2003, the Company made investments in machinery and equipment of approximately $351,431 in continuing operations ($8,358 by NanoPierce Card, presented in discontinued operations) to support its expanded activities at ExypnoTech, as compared to $188,755 in continuing operations ($12,136 by NanoPierce Card, presented in discontinued operations) during the fiscal year ended June 30, 2002. In August 2002, ExypnoTech accepted delivery on machinery to begin the production of RFID components for usage in Smart Labels.

During the fiscal year ended June 30, 2003, the Company expanded the scope of its patent and trademark applications. The patent and trademark applications are being amortized using the straight-line method over ten years. On June 30, 2003, the Company has patent and trademark applications costs of $431,286, compared to $242,646 on June 30, 2002. The increase of $188,640 was due in part to the filing of trademark applications at the international level and the filing of new patent applications in connection with development and advancement of the technology.

PLAN OF OPERATIONS

The Company has signed various nondisclosure and cooperation agreements with companies both overseas and in the United States. The agreements are applicable to the application of the Company's NCS technology and/or its WaferPierce method for various products in the smart card/smart label industries, the LED industry and in the semiconductor industry. Management is pursuing the development of further similar agreements both nationally and

internationally with additional companies in not only these but other industries. The Company is also involved in creating samples and testing in connection with these agreements.

In September 2003, the Company formed a joint venture with Scimaxx, LLC. The joint venture, Scimaxx Solutions, LLC is to handle marketing of the Company's technology. Scimaxx LLC, is owned by an officer and director of the Company and two former employees of the Company. In return for 50% ownership of the Scimaxx Solutions, LLC, the Company contributed a license to utilize its technology and the facilities and equipment of NanoPierce Connections. The Company is not required to make any cash contributions to the joint venture. Operating capital will be provided by Scimaxx, LLC.

Effective September 22, 2003, the Company signed a letter of intent with Meshed Systems, GmbH ("Meshed Systems"), in which Meshed Systems is to make a 100,000 Euro investment in ExypnoTech for a 51% equity interest. The letter of intent provides for Meshed Systems to manage the operations of ExypnoTech and to provide ExypnoTech with working capital on an as needed basis. The Company is to grant ExypnoTech a non-exclusive, non-royalty bearing worldwide license to practice its ultrasonic technology. Profit sharing is to based on the equity ownership. The license will also allow ExypnoTech to sublicense the intellectual property. Meshed Systems is managed by a former officer and director of the Company.

The Company is continuing to look for additional financing through marketing of its NCS though the pursuit of licensing, joint ventures, co-manufacturing or other similar arrangements with industry partners. The failure to secure such a relationship will result in the Company requiring substantial additional capital and resources to bring its NCS to market. To the extent the Company's operations are not sufficient to fund the Company's capital requirements, the Company may enter into a revolving loan agreement with financial institutions or attempt to raise capital through the sale of additional capital stock or through the issuance of debt. At the present time the Company does not have a revolving loan agreement with any financial institution nor can the Company provide any assurance that it will be able to enter into any such agreement in the future or be able to raise funds through the further issuance of debt or equity in the Company. The Company continues to evaluate additional merger and acquisition opportunities.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 establishes new standards on how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Under previous guidance, issuers could account for many of those instruments as equity. SFAS No. 150 requires that those instruments be classified as liabilities in statements of financial position. SFAS No. 150 is effective for all financial instruments entered into or modified after may 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company believes that the adoption of SFAS No. 150 will not have a material impact on its results of operations or financial condition.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. This statement amends SFAS No. 123, Accounting for Stock Based Compensation, and establishes two alternative methods of transition for the intrinsic value method to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148

requires prominent disclosure about the effects on reported net income (loss) and requires disclosure for these effects in interim financial information. The Company adopted the disclosure only provisions of SFAS No. 148 in 2003 and plans to continue accounting for stock-based compensation under APB 25.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses accounting and financial reporting for the impairment or disposal of long-lived assets. The Company adopted SFAS No. 144 effective July 1, 2002, and has applied the provisions of SFAS No. 144 in connection with its accounting for the impairment of long-lived assets, discussed above. Management does not believe the application of SFAS No. 144 resulted in a 2003 impairment charge different from that under previous accounting standards. The provisions of SFAS No. 144 were also applied in connection with the Company's accounting for discontinued operations.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to deferred revenues; depreciation or fixed assets, amortization of intangible assets such as our intellectual property, financing operations, currency valuations and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed 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 that the following are some of the more significant accounting policies and methods used by the Company:

- stock based compensation;
- valuation of intellectual property, patent and trademark applications and other long-lived assets;
- international operations;
- revenue recognition and deferred revenue;
- litigation; and
- contractual obligations.

Stock-based compensation

SFAS No. 123, Accounting for Stock Based Compensation, defines a fair-value-based method of accounting for stock-based employee compensation plans and transactions in which an entity issues its equity instruments to acquire goods or services from non-employees, and encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for employee stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (APB No. 25), Accounting for Stock Issued to Employees, and related interpretations. Accordingly, employee compensation cost for stock options is measured as the excess, if any, of the estimated fair value of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. This statement amends SFAS No. 123, Accounting for Stock Based Compensation, and establishes two alternative methods of transition for the intrinsic value method to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 requires prominent disclosure about the effects on reported net income (loss) and requires disclosure for these effects in interim financial information. The Company adopted the disclosure only provisions of SFAS No. 148 in 2003 and plans to continue accounting for stock-based compensation under APB 25.

Valuation of intellectual property, patent and trademark applications and other long-lived assets

The Company assesses the impairment of long-lived assets and intangible assets such as intellectual property and patent and trademark applications whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers important which could trigger an impairment review include negative projected operating performance by the Company and significant negative industry or economic trends. At June 30, 2003, management assessed the carrying value of intellectual and other long-lived assets for impairment, and based on this assessment the Company believed that impairment was necessary in the case of both the original intellectual property and the WaferPierce System located at NanoPierce Connections. During 2003, the Company recognized an impairment of $200,000 on the intellectual property and an impairment of $10,000 on the WaferPierce System. The Company does not believe that there has been any other impairment to long-lived assets as of June 30, 2003.

International operations

The Company's two foreign subsidiaries (NanoPierce Card and ExypnoTech) operations are located in Germany. NanoPierce Card and ExypnoTech transactions are conducted in currencies other than the U.S. dollar, (the currency into which the subsidiaries' historical financial statements have been translated) primarily the Euro. As a result, the Company is exposed to adverse movements in foreign currency exchange rates. In addition, foreign political and economic environment, trade barriers, managing foreign operations and potentially adverse tax consequences. Any of these factors could have a material adverse effect on the Company's financial condition or results of operations in the future.

Revenue recognition and deferred revenue

The Company's revenue recognition policy is significant because future revenue could be a key component of its results or operations. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause operating results to vary significantly.

The Company derived most of its revenue through discontinued operations of its German subsidiary, NanoPierce Card, which performed various software development and implementation services for third parties. These services are substantially unrelated to the development and marketing of the PI Technology. Revenues from these services are generally recorded as the services are preformed and when no significant obligations remain related to implementation. Revenues are deferred if significant future obligations are to be fulfilled or if connection is not probable.

Litigation

The Company is involved in certain legal proceedings, as described in Note

8 and 9 to the consolidated financial statements included in this report.

The Company intends to vigorously prosecute these legal proceedings and does not believe the outcome of these proceedings will have a material adverse effect on the financial condition, results of operations or liquidity of the Company. However, it is too early at this time to determine the ultimate outcome of these matters.

Contractual obligations

For more information on the Company's contractual obligations on operating leases, refer to Note 10 of the Consolidated Financial Statements. At June 30, 2003, the Company's commitments under these obligations were as follows (in thousands):

	OPERATING LEASES
Year ending June 30,	
2004	$ 125
2005	91
2006	67
	283

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and related financial information required to be filed are indexed on page F-1 and are incorporated herein.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

EXECUTIVE OFFICERS AND DIRECTORS

The executive officers, directors and significant employees of the Company are as follows:

NAME AND AGE	POSITION	PERIOD
Paul H. Metzinger (64)	Director, President, Chief Executive Officer,	December 1998 to present
	General Manager of NanoPierce Card	January 2000 to present
Dr. Herbert J. Neuhaus (44)	Director, Executive Vice President of Technology & Marketing,	January 1999 to present

	President & Chief Executive Officer of NanoPierce Connection	January 2002 to present
Dr. Michael E. Wernle (41)	Director, Executive Vice President of Strategic Business Development,	November 1999 to September 2003
	President & Chief Executive Officer of NanoPierce Card,	January 2000 to May 2003
	President & Chief Executive Officer of ExypnoTech	February 2002 to August 2003
Kristi J. Kampmann (30)	Chief Financial Officer, Secretary	October 1999 to present February 1998 to present
Dr. Robert Shaw (63)	Director	October 2000 to present
Dr. Noel Eberhardt (65)	Director	November 2001 to present
John Hoback (63)	Director	April 2002 to present
Richard Lancaster (36)	Chief Financial Officer of NanoPierce Card & ExypnoTech	February 2002 to June 2003

The directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. The Board of Directors elects the officers at its annual meeting immediately following the shareholders annual meeting and hold office until they resign or are removed from office. There are no family relationships that exist between any director, executive officer, significant employee or person nominated or chosen by the Company to become a director of executive officer. The Company has established audit, incentive compensation and nominating committees, consisting of the independent directors.

BIOGRAPHICAL INFORMATION ON OFFICERS, DIRECTORS AND SIGNIFICANT EMPLOYEES

PAUL H. METZINGER. Mr. Metzinger was President and Chief Executive Officer of the Company from February 26, 1998 to May 6, 1998 and has served in that same capacity from December 1, 1998 to present. He has been a director of the Company since February 26, 1998. He has served as the General Manager of NanoPierce Card since January 19, 2000. In addition, he serves as the President, Chief Executive Officer, Chief Financial Officer and a Director of Intercell International Corporation. Prior to becoming a director and officer of the Company and Intercell International Corporation, Mr. Metzinger served as Intercell's General Counsel and practiced securities law in Denver, Colorado for over 32 years. Mr. Metzinger received his J.D. degree in 1967 from Creighton University Law School and his L.L.M. from Georgetown University in 1969.

HERBERT J. NEUHAUS, PH.D. Dr. Neuhaus has been the Executive Vice President of Marketing and Technology and a Director of the Company since January 1, 1999. He has been the President and Chief Executive Officer of NanoPierce Connection since January 2002. Dr. Neuhaus previously served as the Managing Director of Particle Interconnect Corporation from August 18, 1997 to November 1, 1997. From August 1989 to August 1997, he was associated with the Electronic Material Venture Group in the New Business Development Department of Amoco Chemical Company, Naperville, Illinois. While associated with Amoco Chemical Company he held among other positions: Business Development Manger/Team Leader; Project Manager --High Density Interconnect; Product Manager MCM Products and as a research scientist.

Dr. Neuhaus received his Ph.D. degree in Physics form the Massachusetts

Institute of Technology, Cambridge, Massachusetts in 1989 and his BS in Physics from Clemson University, Clemson, South Carolina in 1980.

DR. MICHAEL E. WERNLE. Dr. Wernle served as the Executive Vice President for Strategic Business Development and a Director of the Company, from November 1999 to September 2003. He was the President and Chief Executive Officer of NanoPierce Card from January 2000 to May 2003. He was the President and Chief Executive Officer of ExypnoTech from February 2002 to August 2003. Dr. Wernle was formerly Chief Operations Officer for Meinen, Ziegel & Co., GmbH, Munich, Germany. He also served as the Director of Production for Mikron/Philips-Graz, Graz, Austria. Where he was responsible for the development and production of RFID and Contactless Smart Card Systems.

Dr. Wernle received his Ph.D. in Applied Physics from the Technical University of Vienna in 1990 and his Masters Degree in Industrial Electronics in 1988.

KRISTI J. KAMPMANN. Ms. Kampmann was appointed the Chief Financial Officer of the Company on October 15, 1999. Ms. Kampmann has been Secretary of the Company since February 1998. She has served as the Secretary of Intercell International Corporation, since July 28, 1999. Since June 1997, she has been the administrative assistant to the Chief Executive Officer and Chief Financial Officer, in addition, during the same period she served in the same capacity to the Chief Executive Officer of Intercell. From April 1996 to June 1997, she served as a paralegal and administrative assistant for Paul H. Metzinger, P.C. Ms. Kampmann received an MBA from the University of Colorado, Denver in December 2001. Ms. Kampmann graduated from the Denver Paralegal Institute in 1996 and received a B.A. from the University of Minnesota in Morris in 1995, majoring in Political Science with a minor in Business Management.

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DR. ROBERT SHAW. Dr. Shaw has been a Director of the Company since October 31, 2000. Dr. Shaw currently is an Assistant Professor of Physics at Farleigh Dickinson University. Among others, he has held the positions of Research chemist at the American Cyanamid Research Laboratories, Stamford; Senior Research Physicist at Exxon Research and Engineering Company; Manager of New Business Development at Exxon Enterprises, Exxon Corporation, New York, NY; and President of Robert Shaw Associates, Inc., Chatham, NJ.

Dr. Shaw received his Ph.D. in Solid State Physics form Cambridge University, Cambridge, England. He was among the first to conduct academic research on electronic conduction mechanisms in amorphous semiconductors. He received a B.S. in Inorganic Chemistry with a minor in Nuclear Physics from North Carolina State University, Raleigh, NC.

NOEL EBERHARDT. Mr. Eberhardt has been a Director of the Company since November 28, 2001. Mr. Eberhardt's 35 year career has focused on the design, development, process development and manufacturing of electronic packages. He has held positions with Motorola WSSD (Worldwide Smartcard Systems Division), Indala Corporation and Hytek Microsystems, among a few, throughout his career.

JOHN HOBACK. Mr. Hoback has been a director of the Company since April 2002. Mr. Hoback currently serves as the President of Z&H Enterprises Solutions, Ltd. Among others, he has held positions with CTS, Amoco Chemical, Electro-Kinetic Systems, Inc. and EMCA/Rohm & Haas Company.

RICHARD LANCASTER. Mr. Lancaster served as the Chief Financial Officer of NanoPierce Card from February 1, 2002 to June 30, 2003 and of ExypnoTech from February 2002 to June 30, 2003. From 1995 to February 1, 2002 Mr. Lancaster was with Booz, Allen & Hamilton Management consultants, focusing on managing key

financial programs for international technology companies. Mr. Lancaster also served as a project leader with ICI Chemicals and Poymers, Plc and with EDS (Electronic Data Systems) Consulting. Mr. Lancaster received his masters in electrical and information engineering from the University of Cambridge, UK and an MBA from INSEAD, France.

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ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning compensation paid by the Company to the Chief Executive Officer and the Company's three most highly compensated executive officers for the fiscal years ended June 30, 2003 and 2002 (the "Named Executive Officers"):

		ANNUAL COMPENSATION				LONG T
						AWARDS
NAME & PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENSA-TION	RESTRICTED STOCK AWARDS ($)	SECURIT UNDERLY OPTIONS
Paul H. Metzinger,						
Director,	2003	$ 132,500	$ -0-	$ -0-	$ -0-	-0-
President & CEO(1)	2002	$ 190,750	$ -0-	$ -0-	$ -0-	-0-
Dr. Herbert J. Neuhaus,						
Director, Ex. VP	2003	$ 148,333	$ -0-	$ -0-	$ -0-	-0-
of Technology &	2002	$ 190,750	$ -0-	$ -0-	$ -0-	-0-
Marketing, Pre & CEO of NanoPierce Connection (2)						
Dr. Michael E. Wernle, Director,						
Ex. VP of	2003	$ 128,000	$ -0-	$ -0-	$ -0-	365,0
Strategic	2002	$ 160,000	$ -0-	$ -0-	$ -0-	-0-
Business Dvlpmt, Pres & CEO of ExypnoTech (3)						
Kristi J. Kampmann, Chief						
Financial Officer	2003	$ 58,125	$ -0-	$ -0-	$ -0-	-0-
& Secretary(4)	2002	$ 67,500	$ -0-	$ -0-	$ -0-	100,0