NANOPIERCE TECHNOLOGIES INC
Form 10KSB
October 01, 2004

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, 2004

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 27, 2004, there were 90,059,033 shares outstanding, 87,996,765 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 27, 2004, was approximately $10,559,612.

The registrant's revenue for the fiscal year ended June 30, 2004 was $34,258.

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, 2004, Intercell held 464,870 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)"). NCS is an alternative method of providing temporary or permanent electrical connections between different flexible, rigid, metallic and non-metallic surfaces. Through the use of the particle technology, the Company can also attach semi-conductors directly to various surfaces. The Company has trademarked this process as WaferPierce(TM).

The Company, since the acquisition of NCS, has focused on attempting to provide the electronics industry with technologically advanced, cost-effective electronic connection technology that utilizes less expensive materials, allows for electronic connections to be made with and on flexible materials, miniaturizes the components needed to make electronic connections, allows lead-free connections and allows electronic connections to be made in an environment where increased temperatures would not previously allow such connections.

The Company does not currently plan to manufacture or develop products that utilize the Company's particle technology and the Company has no prior experience in taking technology to the manufacturing or production stage. The Company expected to generate revenue by licensing companies to apply the Company's particle technology to products that are brought to the market place by those licensees or by entering into joint ventures with companies that manufacture products using the particle technology. To date, the Company has not successfully licensed companies to manufacture, develop and market products using the Company's particle technology, and the Company does not currently have licensing relationships in place.

During the fiscal year ended June 30, 2004, the Company minimized its operations to conserve funds. After the completion of the financing described below under "ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCK HOLDER MATTERS-Recent Sales of Unregistered Securities," the Company revised its business strategy and intends to use the funds received or to be received from such sale to support minimal operations while it investigates potential acquisition targets. In addition, the Company dissolved a wholly-owned subsidiary (NanoPierce Card), terminated operations of a wholly-owned subsidiary (NanoPierce Connection),

sold a majority interest in a subsidiary (ExypnoTech), entered into a joint venture (Scimaxx Solutions) and formed a new wholly-owned subsidiary (ExypnoTech, LLC), each as described below.

NANOPIERCE CARD TECHNOLOGIES, GMBH ("NANOPIERCE CARD"). Established in January 2000, NanoPierce Card was 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, NanoPierce Card filed for 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 decided in April 2003 to discontinue operations at NanoPierce Card and to liquidate NanoPierce Card, through a self-liquidation. The Company completed the plan of self-liquidation and the German court legally dissolved NanoPierce Card on June 8, 2004.

NANOPIERCE CONNECTION SYSTEMS, INC. ("NANOPIERCE CONNECTION"). NanoPierce Connection, a Nevada corporation, was located in Colorado Springs, Colorado, USA. Beginning business in January 2002, NanoPierce Connection was the center for research and development activities. In September 2003, the Company entered into a joint venture with Scimaxx, LLC in order to further the marketing of the services previously offered by NanoPierce Connection. In return for a 50% ownership interest in the newly created joint venture (Scimaxx Solutions described below), the Company contributed a license to utilize its technology and the facilities and equipment of NanoPierce Connections. The Company has no ongoing responsibilities to make any cash contributions to the joint venture.

EXYPNOTECH, GMBH ("EXYPNOTECH"). ExypnoTech was organized in February 2002. ExypnoTech produces inlay components used in the manufacturing of, among other things, smart labels (often referred to as radio frequency identification tags or "RFID"). ExypnoTech, in addition to the inlay components, plans to manufacture and sell other types of RFID components. In December 2003 ExypnoTech sold a controlling 51% interest in ExypnoTech to TagStar Systems, GmbH for $98,000 in cash. As a result of this sale, the Company does not have a controlling interest in ExypnoTech and the Company is only entitled to 49% of the net income generated by ExypnoTech. ExypnoTech, if able, will pay dividends on an annual basis. The Company is entitled to 49% of the dividends, if any, paid as a result of any future profits of ExypnoTech. The sale of the controlling interest in ExypnoTech decreased the Company's revenues from ExypnoTech.

SCIMAXX SOLUTIONS, LLC ("SCIMAXX SOLUTIONS"). On September 15, 2003, the Company entered into a joint venture with Scimaxx, LLC (Dr. Neuhaus, a director of the Company is a part owner of Scimaxx, LLC - See Item 12). The purpose of the joint venture is to provide the electronics industry with technical solutions to manufacturing problems based on the need for electrical connectivity. The Company received a 50% interest in the joint venture in exchange for a contribution of the equipment owned by NanoPierce Connection. The Company also granted Scimaxx Solutions a ten-year, non-exclusive, non-royalty bearing worldwide license to use the Company's intellectual property. Scimaxx, LLC is to invest $50,000 cash, of which $22,900 has been received as of June 30, 2004. The terms of the joint venture provide for the Company to share in 50% of joint venture net profits, if any. The Company is to share in 50% of joint venture net losses beyond the first $50,000. The Company has a 49% voting interest in the joint venture.

EXYPNOTECH, LLC ("EXYPNOTECH, LLC"). On June 18, 2004, the Company organized ExypnoTech, LLC as a wholly-owned subsidiary to market, primarily in the United States of America, the RFID components manufactured by ExypnoTech, GmbH.

2

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. To reduce expenses, during the fiscal year ended June 30, 2004, the Company abandoned several of its patent applications. The Company also holds several trademarks with the U.S. Patent and Trademark Office, in connection with the Company's name, logo and services.

During the fiscal year ended June 30, 2004, the Company incurred an expense of $608,061 in connection with the impairment of the original intellectual property, patent applications and trademarks owned by the Company. The impairment decreased the book value of the intellectual property, patent applications and trademarks to $0. The decision to record an impairment of the intellectual property was based on the overall age of the patents combined with the Company's current inactive operational status relating to its core technology and the Company's decision to consider potential acquisition targets outside of the technology industry. (See - "Notes to the Consolidated Financial Statements - Note 1")

BUSINESS STRATEGY

The Company, through its various investments and joint ventures, is targeting the following applications of its technology:

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 application being focused on by the Company is smart labels. ExypnoTech currently offers RFID Components using the Company's intellectual property. ExypnoTech, LLC is attempting to market RFID components produced by ExypnoTech primarily in the United States. To date these marketing efforts have met with limited commercial success.

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. Scimaxx Solutions offers this service to potential customers. To date, these services have met with limited commercial success.

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.

The Company's business strategy also includes making an acquisition of an operational, revenue generating company, not necessarily in the technology industry. At this time, the Company has reviewed several potential acquisitions, but has not come to terms with an acquisition candidate.

RESEARCH AND DEVELOPMENT

The Company's research and development activities were formerly conducted through NanoPierce Connection, with additional activities occurring at ExypnoTech. Beginning in September 2003, the Company's limited research and development activities were conducted indirectly through Scimaxx Solutions and ExypnoTech. For the fiscal years ended June 30, 2004 and June 30, 2003, NanoPierce Connections and ExypnoTech incurred $41,849 and $316,403, respectively, in research and development expenses from continuing operations. NanoPierce Card incurred $0 and $251,354 in 2004 and 2003, 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. Consequently, 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, 2004.

EMPLOYEES

On June 30, 2004, the Company and its subsidiaries had two employees. Mr. Metzinger and Ms. Kampmann, key officers of the Company and the only two employees of the Company, have signed employment agreements with the Company. (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.

FACTORS AFFECTING FUTURE OPERATING RESULTS

Our future results may be affected by various risks and uncertainties including the following:

WE HAVE A HISTORY OF LOSSES

Developing our particle technology and its applications has been and we expect will continue to be expensive. Our operating expenses have consistently exceeded our revenues. We reported a net loss of $1,558,083, $4,017,785, and $4,729,072 for the fiscal years ended June 30, 2004, 2003 and 2002, respectively.

WE MAY NOT BE ABLE TO CONTINUE AS A GOING CONCERN

Our independent auditors' report of our financial statements as of June 30, 2004 includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. If we are unable to secure significant additional financing, we may be obligated to seek protection under the bankruptcy laws and our shareholders may loose their investment.

OUR REVENUES DEPEND ON OUR ABILITY TO LICENSE COMPANIES TO APPLY OUR PARTICLE TECHNOLOGY TO PRODUCTS THAT THEY BRING TO THE MARKETPLACE WHICH WE HAVE BEEN UNABLE TO ACCOMPLISH TO DATE

We do not anticipate generating significant revenues until we are able to license companies to apply our particle technology to products that are brought to the marketplace. To date, we have not successfully licensed companies to apply our particle technology to products that are brought to the marketplace. Even if we are successful and products utilizing our particle technology are brought to the marketplace, we may still not generate enough revenue to offset our operating costs.

We do not have licensing relationships with manufacturers to develop and market products using our particle technology in place, and if we are unable to secure these agreements, we believe that we may not become profitable in the future.

5

We believe that our long-term profitability and growth depends on entering into licensing or joint venture relationships with various manufacturers to develop and market products using the particle technology or to successfully enter into a business combination with a profitable company. We have not entered into any formal agreements to date, and even if we do enter into agreements in the future, we cannot assure that the agreements will be profitable.

CONSUMERS MAY USE ALTERNATIVE TECHNOLOGIES UNLESS WE ESTABLISH A MARKET PRESENCE WITH OUR PARTICLE TECHNOLOGY

The interconnect market is subject to rapid technology changes. New products are introduced, old products are enhanced and others become obsolete. The entire interconnect market may be replaced by a newer form of technology. To be competitive, we believe that we must develop, market and sell our products on a timely and cost-effective basis and respond to the ever changing requirements and demands of our customers, which in turn depends in part on our capability to upgrade our products and quality control procedures and to adapt to technological changes and advances in the electronics industry.

We cannot assure that we will be successful in selecting, developing, and marketing new technologies or that compatibility issues with an evolving generation of electronic components and manufacturing equipment and errors or flaws in the new technologies will not prevent or delay market acceptance. Any further delay in bringing our particle technology to the marketplace could cause prospective customers to use alternative technologies and could result in our inability to generate sufficient revenues to cover our operating costs.

WE MAY BE UNABLE TO SUCCESSFULLY COMPETE IN THE MARKETPLACE

The interconnect market is highly competitive. Our success will depend in part on how quickly competitors can design and develop competing products and technologies. We will compete with suppliers of other interconnect technologies including Alien Technologies, Inc., Interconnect Technologies and major electronic technology manufacturing leaders including Philips, Siemens, Infineon and IBM. We are disadvantaged competing against these competitors in several different areas, including:

- financial resources;
- technological resources;
- manufacturing capabilities;
- diversity of revenue sources and business opportunities;
- personnel and human resources; and
- research and development capabilities.

Our larger competitors have long term advantages over us in research and new product development and have a greater ability to withstand periodic downturns in the interconnect market because they have diverse product lines that can provide revenue even when there is a downturn in the interconnect market.

WE CANNOT GUARANTEE THE QUALITY, PERFORMANCE OR RELIABILITY OF OUR PRODUCTS

We have no prior experience in taking technology to the manufacturing or production stage. We plan to have licensees or co-joint venturers manufacture products using the particle technology. We expect that the customers of these products will demand quality, performance and reliability. We cannot assure you

6

that our future licensees or co-joint venturers will be able to meet the quality control standards that may be established by equipment manufacturers and other customers of products utilizing the particle technology.

THERE MAY BE INSUFFICIENT DEMAND FOR OUR PARTICLE TECHNOLOGY

We must convince our potential customers that the particle technology is technologically sound and can be manufactured efficiently and cost-effectively before connector manufacturers and electronic equipment manufacturers will be willing to use our technology. To create this consumer demand, we have to successfully market and sell our technology. Even after these efforts, our particle technology may not be viewed by consumers as an improvement over existing technologies and may not achieve commercial acceptance.

WE MAY BE UNABLE TO MEET OUR ONGOING NEEDS FOR ADDITIONAL CAPITAL

We cannot accurately predict how much funding we will need to implement our strategic business plan or to continue operations. Our future capital requirements, the likelihood that we can obtain money and the terms of any financing will be influenced by many different factors, including:

- our revenues,
- the status of competing products in the marketplace,
- our performance in the marketplace,
- our overall financial condition,
- our business prospects,
- the perception of our growth potential by the public, including potential lenders,
- our ability to enter into joint venture or licensing relationships to achieve a market presence and
- our progress in developing, marketing and selling the particle technology.

If we cannot obtain adequate financing or if the terms on which we are able to acquire financing are unfavorable, our business and financial condition could be negatively affected. We may have to delay, scale back or eliminate some or all of our development and marketing programs, if any. We may also have to go to third parties to seek financing, and in exchange, we may have to give up rights to some of our technologies, patents, patent applications, potential products or other assets.

WE MAY BE UNABLE TO HIRE AND RETAIN KEY PERSONNEL

Our future success depends on our ability to attract qualified technical personnel capable of working with our technology. We may be unable to attract these necessary personnel. If we fail to attract or retain skilled employees, or if a key employee fails to perform in his or her current position, we may be unable

to bring our particle technology to the marketplace and to generate sufficient revenues to offset our operating costs.

WE MAY BE UNABLE TO OBTAIN AND RETAIN APPROPRIATE PATENT, COPYRIGHT AND TRADEMARK PROTECTION OF OUR PRODUCTS

We protect our intellectual property rights through patents, trademarks, trade names, trade secrets and a variety of other measures. However, these measures may be inadequate to protect our intellectual property or other proprietary information.

- TRADE SECRETS MAY BECOME KNOWN BY THIRD PARTIES. Our trade secrets or proprietary technology may become known or be independently developed by competitors.
- RIGHTS TO PATENTS AND TRADE SECRETS MAY BE INVALIDATED. Disputes may arise with third parties over the ownership of our intellectual property rights. Our patents may be invalidated, circumvented or challenged, and the rights granted under those patents that provide us with a competitive advantage may be

nullified.

- PROBLEMS WITH FUTURE PATENT APPLICATIONS. Our pending or future patent applications may not be approved, or the scope of the granted patent may be less than the coverage sought.

- INFRINGEMENT CLAIMS BY THIRD PARTIES. Infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification may be asserted by third parties in the future. If any claims or actions are asserted against us, we can attempt to obtain a license for that third party's intellectual property rights. However, the third party may not provide a license under reasonable terms, or may not provide us with a license at all.

- THIRD PARTIES MAY DEVELOP SIMILAR PRODUCTS. Competitors may develop similar products, duplicate our products or may design around the patents that are owned by us.

- LAWS IN OTHER COUNTRIES MAY INSUFFICIENTLY PROTECT INTELLECTUAL PROPERTY RIGHTS ABROAD. Foreign intellectual property laws may not adequately protect our intellectual property rights abroad. Our failure to protect these rights could adversely affect our business and financial condition.

- LITIGATION MAY BE REQUIRED TO PROTECT INTELLECTUAL PROPERTY RIGHTS. Litigation may be necessary to protect our intellectual property rights and trade secrets, to determine the validity of and scope of the rights of third parties or to defend against claims of infringement or invalidity by third parties. This litigation could be expensive, would divert resources and management's time from our sales and marketing efforts, and could have a materially adverse effect on our business, financial condition and results of operations and on our ability to enter into joint ventures or partnerships with others.

LICENSE RIGHTS TO PARTICLE TECHNOLOGY MAY LIMIT OUR ABILITY TO COMPETE

Before we acquired the patents, patent applications and licenses from the original owners of the particle technology, the inventor of the particle technology granted five companies exclusive and non-exclusive licenses to use the patents and patent applications relating to the particle technology. At this time, only two of the original five licensees are using our technology and none of these licenses relate to either smart card or smart label technology. A non-exclusive, two year

8

license was also granted to the inventor of the particle technology in October 2002 in connection with the settlement of certain litigation with the inventor. Scimaxx Solutions was granted a ten year, non-exclusive, non-royalty bearing world wide license to use the Company's intellectual property. In addition, the Company assigned the U.S. Provisional Application for Ultrasonic Bonding of Electronic Devices and the trademark Application for Smart Paper to ExypnoTech on December 11, 2003, as part of the agreement wherein the Company sold 51% of ExypnoTech to TagStar Systems, GmbH. These licenses restrict us as follows:

- EXCLUSIVE LICENSES PREVENT US FROM COMPETING AGAINST THE EXCLUSIVE LICENSES. We cannot compete in the fields in which exclusive licenses have been granted. An exclusive license was granted in the field of sockets for use in the automated handling and testing of integrated circuits, a type of semiconductor in which a number of transistors and other elements are combined to form a more complicated circuit.

- NON-EXCLUSIVE LICENSES ALLOW LICENSEES TO COMPETE AGAINST US IN CERTAIN AREAS. The licensees with non-exclusive licenses can compete directly with us or our other future licensees. Non-exclusive licenses have been granted to use the particle technology for electrically conductive components, laminate-based and metal-based products and semiconductor products. Although we are not currently aware of any proposed competition by any of our licensees, if the present licensees decide to compete with us or our future licensees, this competition could adversely affect our business.

WE DO NOT EXPECT TO PAY DIVIDENDS IN THE FORESEEABLE FUTURE

We have never paid cash dividends on our common stock. We do not expect to pay cash dividends on our common stock at any time in the foreseeable future. The future payment of dividends directly depends upon our future earnings, capital requirements, financial requirements and other factors that our board of directors will consider. Since we do not anticipate paying cash dividends on our common stock, return on your investment, if any, will depend solely on an increase, if any, in the market value of our common stock.

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. The base rent is $4,850 per month for the remaining term of the lease, plus certain occupancy costs. Intercell maintains an administrative office on the premises.

NanoPierce Connection was located at 4180 Center Park Drive, Colorado Springs, Colorado 80916. NanoPierce Connection currently has a 3-year lease on the property, expiring in March 2006. The base rent is $2,600 per month through March 30th, with a $100 per month increase in base rent each year thereafter for the remaining term of the lease, plus utilities and maintenance expenses. The facility is approximately 4,800 square feet consisting of office space and a small laboratory. The facility also has a clean room for use in the WaferPierce process. In October 2003, as part of the joint venture signed with Scimaxx Solutions, the joint venture operates in the former facilities of NanoPierce Connections and has taken over responsibility for payment under the lease. Scimaxx Solutions conducts research and development activities at this facility.

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. During the fiscal year ended June 30, 2004, NanoPierce Card moved from the facility and implemented a plan of self liquidation. As part of the self liquidation, the lessor was given first priority on any funds received from the liquidation.

ExypnoTech leases production space located at Professor-Hermann-Klare-Strasse 6, D-07407 Rudolstadt, Germany. ExypnoTech had a 5-year lease on the facilities, expiring in March 2007. The base rent was $821 per month for the remaining term of the lease, plus utilities, repairs, maintenance and tax expenses. During the fiscal year ended June 30, 2004, ExypnoTech terminated the lease and moved from the facility to the same facility as its majority shareholder, TagStar Systems, GmbH.

ITEM 3. LEGAL PROCEEDINGS

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. 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 this litigation, Harvest Court, LLC filed counterclaims against the Company, Mr. Metzinger, Ms. Kampmann, Dr. Neuhaus, Dr. Shaw and a number of unrelated third parties. The counterclaims allege violations of federal securities laws and other laws. Harvest Court, LLC is seeking various forms of relief including compensatory and punitive damages. Responsive pleadings have been filed and the litigation is currently in the discovery stage.

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, LLC. The Company has filed counterclaims seeking various forms of relief against Harvest Court, LLC.

The Company intends to vigorously prosecute all litigation and does not believe the outcome of the litigation 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.

DEPOSITORY TRUST COMPANY

On May 4, 2004, the Company filed suit against the Depository Trust and Clearing Corporation (DTCC), the Depository Trust Company (DTC), and the National Securities Clearing Corporation (NSCC) in the Second Judicial District Court of the County of Washoe, State of Nevada. The suit alleges multiple claims under Nevada Revised Statutes 90.570, 90.580, 90.660 and 598A.060 and on other legal bases. The

complaint alleges, among other things, that the DTCC, DTC and NSCC acted in concert to operate the "Stock Borrow Program," originally created to address short term delivery failures by sellers of securities in the stock market. According to the complaint, the DTCC, NSCC and DTC conspired to maintain significant open fail deliver positions of millions of shares of the Company's common stock for extended periods of time by using the Stock Borrow Program to cover these open and unsettled positions. By permitting shares of the Company to be borrowed through the program, DTCC, NSCC and DTC allegedly jointly conspired to drive down the price of the Company's stock. The complaint also alleges that the operation of the Stock Borrow Program allowed the manipulation of the Company's stock by various sellers who failed to deliver shares to the Company. By covering open fail to deliver positions with shares borrowed through the Stock Borrow Program and delivering borrowed shares to the buyers, the complaint contends that DTCC, NSCC and DTC artificially created unregistered, free trading shares of the Company's common stock and increased the supply of the Company's shares in the market place. The Company is seeking damages in the amount of $25,000,000 and treble damages. Responsive pleadings have been filed by the defendants.

OTHER LITIGATION

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 Company's common stock is presently quoted on the over-the-counter bulletin board maintained by the National Association of Securities Dealers, Inc. (the "NASD") under the symbol "NPCT." The common stock of the Company is also traded on the Frankfurt Exchange and the Hamburg Stock 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.

2003 FISCAL YEAR	HIGH	LOW
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
2004 FISCAL YEAR		
September 30, 2003	0.27	0.21
December 31, 2003	0.29	0.25
March 31, 2004	0.34	0.31
June 30, 2004	0.17	0.15

As of June 30, 2004, there were approximately 326 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

On January 12, 2004, the Company entered into a placement agent agreement with Charleston Capital Corp. (now known as Clayton Dunning & Company, Inc.) in connection with a proposed sale of our securities to a number of "accredited investors" (as defined in the Securities Act of 1933, as amended), in a private placement transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated under the Securities Act of 1933. In connection with this agreement, on January 20, 2004, the Company sold 20,000,000 units for a total of $2,000,000 to a limited number of accredited investors in a private placement transaction exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated under the Securities Act of 1933 pursuant to a Securities Purchase Agreement. Each unit consists of (i) one share of the Company's common stock, (ii) a warrant to purchase one share of the Company's common stock at an exercise price of $0.10 per share ("$.10 warrants") and (iii) and a warrant to purchase two shares of the Company's common stock at an exercise price of $0.25 per share. All these warrants expire on January 20, 2009 unless exercised earlier. As a result of the sale, the Company issued 20,000,000 shares of its common stock, 20,000,000 warrants with an exercise price of $0.10 per share and 40,000,000 warrants with an exercise price of $0.25 per share.

Through June 30, 2004, 3,850,000 of the $0.10 warrants have been exercised by the holders thereof and, as a result, the Company received a total of $347,950 in proceeds.

In connection with the private placement, and in reliance on Section 4(2) of the Securities Act of 1933, as amended and other applicable exemptions thereunder, the Company compensated Charleston Capital Corp. (now known as Clayton Dunning & Company, Inc.) as follows: a fee equal to 3% of the gross proceeds received by the Company as a result of the issuance of the units described above ($60,000); warrants to purchase 600,000 shares of the Company's common stock at an exercise price of $0.10 per share that expire on January 20, 2009, unless exercised earlier; and a right of first refusal on any financing that the Company enters into for a period of one year from the date of the effectiveness of the selling shareholder registration statement filed by the Company as required by the terms of the Securities Purchase Agreement referenced in the prior paragraph. The Company was advised that Clayton Dunning & Company, Inc. (f/k/a Charleston Capital Corp.) transferred 390,000 of the warrants described above as compensation to Chris Messalas, one of Clayton Dunning & Company's registered representatives.

Jason Lyons, unrelated to the Company, received a $200,000 finders fee for introducing the Company to Charleston Capital Corp. (now known as Clayton Dunning & Company, Inc.) and the purchasers and for consulting work done on behalf of the Company. In reliance on Section 4(2) of the Securities Act of 1933, as amended and other applicable exemptions thereunder, the Company also issued to Jason Lyons warrants to purchase 2,000,000 shares of the Company's common stock. The warrants have an exercise price of $0.10 per share and expire on January 20, 2009 unless

exercised earlier. The Company has been advised that Jason Lyons transferred 1,000,000 of these warrants as compensation to GRQ Consultants, Inc., unrelated to the Company, for introducing the Company to Clayton Dunning & Company, Inc. and for consulting work done on behalf of the Company.

On February 25, 2004, the Company filed a registration statement on Form S-2 (Registration No. 333-113071)(the "Registration Statement") to register all of the securities sold in the private placement transaction described above.

The Company made no unregistered sales of its securities from March 31, 2004 through June 30, 2004.

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, 2004, 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, NanoPierce Card filed insolvency with the Courts of Munich, Germany. On June 8, 2004, NanoPierce Card was dissolved by the Courts of Munich, Germany. NanoPierce Card is presented as discontinued operations in the Company's consolidated financial statements. During the year ended June 30, 2004, NanoPierce Card had no income compared to a loss of $882,718 during the year ended June 30, 2003. The decrease of $882,718 is due to the cessation of operations in connection with the self-liquidation. The Company recognized a gain of $454,882 on the disposal of NanoPierce Card during the year ended June 30, 2004.

The Company recognized $34,258 of revenues from continuing operations during the fiscal year ended June 30, 2004 compared to $37,017 in the fiscal year ended June 30, 2003. The revenue generated from continuing operations was from the sale of inlays by ExypnoTech, $28,449 through December 2003, and $5,809 from services provided by the Company.

The Company recognized $2,550 in interest income during the fiscal year ended June 30, 2004 compared to $7,251 during the fiscal year ended June 30, 2003. The decrease of $4,701 is due primarily to the need to utilize cash equivalents to support operations throughout the year.

Total operating expenses from continuing operations during the fiscal year ended June 30, 2004 were $1,999,462, compared to $3,179,297 for the fiscal year

ended June 30, 2003. The decrease of $1,179,835 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, 2004 were $1,312,519 compared to $2,414,077 for the fiscal year ended June 30, 2003. The decrease of $1,101,558 is mainly attributable to decreases in legal expenses, payroll and press releases, website development and other investor relations matters. Selling and marketing expenses during the fiscal year ended June 30, 2004 were $37,033 compared to $238,817 during the fiscal year ended June 30, 2003. The decrease of $201,784 was due to a decrease in marketing activities, including appearances at various trade shows. Research and development expenses during the fiscal year ended June 30, 2004 were $41,849 compared to $316,403 for the fiscal year ended June 30, 2003. The decrease of $274,554 was primarily attributable to the reduction in research and development activities over the previous fiscal year.

During the fiscal years ended June 30, 2004 and 2003, the Company incurred an expense of $608,061 and $210,000, respectively in connection with the impairment of the intellectual property, patent applications and trademarks owned by the Company. The decision to record an impairment of the intellectual property was based primarily on the overall age of the patents and patent applications underlying the intellectual property combined with the Company's current inactive operational status. After the impairment to the intellectual property, patent applications and trademarks, the book value of the aforementioned items is $0.

During the fiscal year ended June 30, 2004, the Company recognized a net loss of $1,558,083 compared to a net loss of $4,017,785 during the fiscal year ended June 30, 2003. The decrease of $2,459,702 mostly resulted from the decrease of $1,179,835 in operating expenses and the decrease of $882,718 in losses of NanoPierce Card and the gain from the disposal of NanoPierce Card of $454,882 during the year ended June 30, 2004.

LIQUIDITY AND FINANCIAL CONDITION

Net cash used in operating activities from continuing operations in 2004 was $1,199,214, compared to net cash used in operating activities from continuing operations in 2003 of $1,754,247. In 2004, the net cash used represented a net loss of $1,558,083, adjusted for the income from discontinued operations of $454,882, amortization and depreciation expense of $291,790, impairment charges of $608,061, equity in losses of affiliates of $99,922, gain on extinguishment of liabilities of $ 52,500, and provision for a doubtful receivable of $58,074.

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, stock based compensation expense of $14,935.

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 was engaged 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 was to consist 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 was to include a $10,000 monthly advisory fee, payable in cash, beginning in June 30, 2003. The Company has accrued but not paid the $10,000 monthly advisory fee, and the agreement expired by its terms on June 30, 2004.

During the fiscal year end June 30,2004, the Company advanced $50,000 to Scimaxx, which was fully reserved for.

During the fiscal year ended June 30,2003, the Company received $170,770 of payments on notes receivable.

During the fiscal year ended June 30, 2004, the Company made investments in machinery and equipment of approximately $1,575. During the fiscal year ended June 30, 2003, the Company made investments in machinery and equipment of $351,431. During the fiscal year ended June 30, 2004, the Company contributed fixed assets with a book value of $132,000 to the Scimaxx Solutions, LLC as part of the terms of the joint venture.

During the fiscal year ended June 30, 2004 the Company sold 20,769,231 shares of common stock and granted warrants to purchase 600,000 shares of its common stock

at exercise prices ranging from $0.10 to $0.25 for net proceeds of $1,828,000 (after deducting offering costs of $272,000). See "ITEM 5-MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS - Recent Sales of Unregistered Securities." The warrants are exercisable through 2008 and contain a cashless exercise provision. The funds were raised to support operations. In addition, the Company issued 3,850,000 shares of common stock upon the exercise of 3,850,000 warrants for $347,950 (net of offering costs of $37,050).

In June 2003, Mr. Metzinger, the President, Chief Executive Officer and a director of the Company, loaned $10,000 to the Company in exchange for an unsecured 7% note payable due in December 2003, the proceeds of which were utilized for operational purposes. In January 2004, the Company paid Mr. Metzinger the outstanding principal balance of this note, together with all accrued interest, from the proceeds of the offering described in "ITEM 5-MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS - Recent Sales of Unregistered Securities.".

During the fiscal 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 provisions. The funds were raised to support operations.

In September 2003, Mr. Metzinger loaned the Company $30,000, in exchange for an unsecured 7% note payable due in September 2004. In January, 2004 the Company paid Mr. Metzinger the outstanding principal balance of this note, together with all accrued interest, from the proceeds of the offering described in "ITEM 5-- MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS - Recent Sales of Unregistered Securities."

In September 2003, Intercell, an affiliate of the Company at the time, loaned the Company $35,000 in exchange for an unsecured, 7% promissory note due in September 2004. In November 2003, Intercell loaned the Company $100,000 in exchange for a 7% promissory note due in November 2004. This promissory note was collateralized by an assignment of a 51% interest in the proceeds, if any, the Company may have received in connection with the Financing Agreement litigation. In January 2004, the Company paid the $135,000 note plus accrued interest of $2,493.

In 2004, the Company converted an account payable of $92,100 into an unsecured non-interest bearing note payable due in March 2005. Through June 30, 2004, the Company has repaid $30,700 on this note.

PLAN OF OPERATIONS

In September 2003, the Company formed a joint venture with Scimaxx, LLC. The joint venture, Scimaxx Solutions, LLC was entered into for the purpose of marketing 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.

On December 11, 2003, TagStar Systems, GmbH, a German entity unrelated to the Company, purchased a controlling 51% equity interest in ExypnoTech in exchange for a capital contribution of $98,000, of which $62,787 has been received as of June 30, 2004. No gain or loss was incurred by the Company as a result of this transaction. As a result of this transaction, the Company does not have a controlling interest in ExypnoTech and the Company is only entitled to 49% of the revenues generated by ExypnoTech (and 49% of the dividends, if any, paid by ExypnoTech). The sale of the controlling interest in ExypnoTech may decrease the Company's revenues from ExypnoTech. As a result of the Company's reduced ownership interest and loss of control of ExypnoTech, the Company deconsolidated ExypnoTech as of December 11, 2003, and began accounting for its investment in ExypnoTech under the equity method of accounting. Under the equity method of accounting, the carrying amount of the Company's investment in ExypnoTech ($203,654 at June 30, 2004) is adjusted to recognize the Company's proportionate share of ExypnoTech's income (loss) each period.

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 January 2003, the Financial Accounting Standards Board (FASB) issued SFAS Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"), which changes the criteria by which one company includes another entity in its consolidated financial statements. FIN 46 requires a variable interest entity ("VIE") to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. In December 2003, the FASB approved a partial deferral of FIN 46 along with various other amendments. The effective date of this interpretation was extended until the first interim or fiscal period that ends after March 15,2004. The adoption of FIN 46 did not impact the Company's financial position or results of operations.

In May 2003, 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.

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, valuation of intangible

16

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, 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, 2004, 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 the original intellectual property, the patent applications and the trademarks. During 2004, the Company recognized an impairment of $608,061 on the intellectual property, patent applications and trademarks. The

Company does not believe that there has been any other impairment to long-lived assets as of June 30, 2004.

International operations

The Company's foreign subsidiary (NanoPierce Card) and foreign equity investment (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.

Litigation

The Company is involved in certain legal proceedings, as described in Note 8 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 9 of the consolidated financial statements. At June 30, 2004, the Company's commitments under these obligations were as follows:

	OPERATING LEASES
Year ending June 30,	
2005	58,200
2006	58,200
2007	14,550
	$130,950

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.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this Form 10-KSB, the Company carried out an evaluation, under the supervision and with the participation of the Company's President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon such evaluation, such officers have concluded that the Company's disclosure controls and procedures are effective in alerting them, on a timely basis, to material information relating the Company required to be included in this Form 10-KSB.

There have been no significant changes to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially effect, the Company's internal controls over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

FINANCIAL EXPERT

The Company's Board of Directors does not have a designated Financial Expert, as defined by the SEC, due to factors including the Company's operational status, and the limited number of transactions, accounts and balances that the Company maintains. In addition, the estimates of cost that the Company would be required to incur in identifying and designating a Financial Expert are deemed not to be in the best interest 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 (65)	Director, President, and Chief Executive Officer,	December 1998 to present
	General Manager of NanoPierce Card	January 2000 to June 2003
Dr. Herbert J. Neuhaus (45)	Director, Former Executive Vice President of Technology & Marketing,	January 1999 to present
	President & Chief Executive Officer of NanoPierce Connection	January 2002 to September 2003
Kristi J. Kampmann (31)	Chief Financial Officer,	October 1999 to present
	Secretary	February 1998 to present
Dr. Robert Shaw (64)	Director	October 2000 to present
John Hoback (64)	Director	April 2002 to present
Dr. Michael E. Wernle (42)	Former Director, Former Executive Vice President of Strategic Business Development,	November 1999 to September 2003
	Former President & Chief Executive Officer of NanoPierce Card,	January 2000 to May 2003
	Former President & Chief Executive Officer of ExypnoTech	February 2002 to August 2003
Dr. Noel Eberhardt (66)	Former Director	November 2001 to December 9, 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 served as the General Manager of NanoPierce Card from January 2000 to June 2003. In addition, he served as the President, Chief Executive Officer and a Director of Intercell International Corporation from June 1996 to October 2003. 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.

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. Ms. Kampmann has served as a manager of ExypnoTech, LLC since June 2004. She has served as the Chief Financial Officer of Intercell International Corporation since October 1, 2003 and as 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.

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 where he has served on the faculty since September 1988. Dr. Shaw also performs professional research in his academic areas of specialty, and has held, among others, 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.

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., which position he has held since 2000. Among other positions, Mr. Hoback was the Director of Marketing and Sales of CTS from 1999 to 2000 and was the Venture Manager of Electronics with Amoco Chemical from 1998 to 1999.

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 the Chief Operations Officer for Meinen, Ziegel & Co., GmbH, Munich, Germany from 1997 to 1999. He also served as the Director of Production for Mikron/Philips-Graz, Graz, Austria from 1994 to 1996. 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.

NOEL EBERHARDT. Mr. Eberhardt was a director of the Company from November 28, 2001 until December 9, 2003. 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.

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, 2004, 2003 and 2002 (the "Named Executive Officers"):

		ANNUAL COMPENSATION			LONG TERM COMPENSATION			
					AWARDS		PAYOUT	
NAME & PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENSA- TION	RESTRICTED STOCK AWARDS ($)	SECURITIES UNDERLYING OPTIONS/ SARS (#)	LTIP PAYOUTS ($)	AL CO
Paul H. Metzinger,	2004	$ 114,583	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$

Director,	2003	$ 132,500	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
President &	2002	$ 190,750	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
CEO(1)								
Dr. Herbert J. Neuhaus,								
Director, Ex. VP	2004	$ 16,668	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
of Technology &	2003	$ 148,333	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
Marketing, Pre &	2002	$ 190,750	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
CEO of NanoPierce Connection (2)								
Dr. Michael E. Wernle,								
Director, Ex. VP	2004	$ -0-	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
of Strategic	2003	$ 128,000	$ -0-	$ -0-	$ -0-	365,000	$ -0-	$
Business Dvlpmt,	2002	$ 160,000	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
Pres & CEO of ExypnoTech (3)								
Kristi J. Kampmann, Chief								
Financial	2004	$ 37,492	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
Officer &	2003	$ 58,125	$ -0-	$ -0-	$ -0-	-0-	$ -0-	$
Secretary(4)	2002	$ 67,500	$ -0-	$ -0-	$ -0-	100,000	$ -0-	$

----

1 Paul Metzinger has served as President & CEO since December 1998. He is compensated pursuant to a written Employment Agreement, dated January 1, 2003 at an annual salary of $200,000. At July 15, 2002, Mr. Metzinger agreed to take a 30% cut in the gross amount of his salary, resulting in an annual salary of $140,000. In February 2003, Mr. Metzinger agreed to a further reduction in his salary to $80,000. In March 2004, Mr. Metzinger salary was increased to $150,000 per year.

2 Dr. Neuhaus has served as the Executive Vice President of Technology and Marketing since January 1999. He served as the President and CEO of NanoPierce Connection from January 2002 to September 2003. He was compensated pursuant to a written Employment Agreement, dated January 2002 at an annual salary of $200,000. On August 1, 2002, Dr. Neuhaus agreed to take a cut of 20% of his annual salary, resulting in an annual salary of $160,000. In March 2003, Dr. Neuhaus agreed to a further reduction in his salary resulting in a gross amount of $80,000. This employment agreement was terminated in September 2003 and Dr. Neuhaus is no longer a paid employee of the Company and/or its subsidiaries.

3 Dr. Wernle served as the Executive Vice President of Strategic Business Development until September 2003. He served as the President & CEO of NanoPierce Card from January 2000 until May 2003. He served as the President & CEO of ExypnoTech, from February 2002 to August 2003. He was compensated pursuant to a written Employment Agreement with NanoPierce Card, dated February 1, 2000, at an annual salary of $160,000 (181,000 Euros). On August 1, 2002, Dr. Wernle agreed to take a 20% cut in the gross amount of his salary, resulting in an annual salary of $128,000. As of August 2003, Dr. Wernle no longer is a paid employee of the Company and/or its subsidiaries.

4 Kristi Kampmann has served as the Chief Financial Officer since October 1999. She is compensated pursuant to a written Employment Agreement, dated March 31, 2004, at an annual salary of $45,000. On July 15, 2002, Ms. Kampmann agreed to take a 20% cut in the gross

amount of her salary, resulting in an annual salary of $60,000. In February

2003, she agreed to a further reduction in the annual gross amount of her salary to $52,500.

The foregoing compensation table does not include certain fringe benefits made available on a nondiscriminatory basis to all Company employees such as group health insurance, dental insurance, long-term disability insurance, vacation and sick leave. In addition, the Company makes available certain non-monetary benefits to its executive officers with a view to acquiring and retaining qualified personnel and facilitating job performance. The Company considers such benefits to be ordinary and incidental business costs and expenses. The aggregate value of such benefits in the case of each executive officer listed in the above table, which cannot be precisely ascertained but which is less than 10% of the cash compensation paid to each such executive officer, is not included in such table.

OPTION/SAR GRANTS TABLE

The following table provides information relating to the grant of stock options to the Company's executive officers during the fiscal year ended June 30, 2004.

	INDIVIDUAL GRANTS			
NAME	# OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE OR BASE PRICE ($/SHARE)	EXPIRATION DATE
Paul H.Metzinger	-0-	0%	-0-	-0-
Dr. Herbert J. Neuhaus	-0-	0%	-0-	-0-
Dr. Michael E. Wernle	-0-	0%	-0-	-0-
Kristi J. Kampmann	-0-	0%	-0-	-0-

1 Based on a total of 0 options granted to employees in the fiscal year ended June 30, 2004.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION/SAR VALUES

The following table provides information relating to the exercise of stock options during the fiscal year ended June 30, 2004 by the Company's executive officers and the 2004 fiscal year-end value of unexercised options.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FY-END	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SAR AT FY-END ($)

			EXERCISABLE/UNEXERCISABLE	EXERCISABLE/UNEXERCISABLE
Paul H. Metzinger	0	0	2,500,000/0	$ 400,000/0
Dr. Herbert J. Neuhaus	0	0	1,350,000/0	$ 216,000/0
Dr. Michael E. Wernle	0	0	1,350,000/0	$ 216,000/0
Kristi J.Kampmann	0	0	325,000/0	$ 52,000/0

----

1 The average of the closing bid and asked price of the Common Stock on June 30, 2004 ($0.16) was used to calculate the option value.

EMPLOYMENT AGREEMENTS

On March 15, 2004, the Company entered into an employment agreement with Paul H. Metzinger to serve as President and Chief Executive Officer of the Company. The employment agreement with Mr. Metzinger expires March 14, 2008. Pursuant to his employment agreement, the Company agreed to pay Mr. Metzinger an annual salary of $150,000.

On January 1, 2002, NanoPierce Connection entered into an employment agreement with Dr. Herbert J. Neuhaus to serve as the Chief Executive Officer and President of NanoPierce Connection. The employment agreement expires December 31, 2005. The agreement with Dr. Neuhaus was terminated in September 2003.

On March 15, 2004, the Company entered into an employment agreement with Kristi J. Kampmann to serve as the Chief Financial Officer of the Company. The employment agreement with Ms. Kampmann expires on March 14, 2008. Pursuant to her employment agreement, the Company agreed to pay Ms. Kampmann an annual salary of $30,000.

In connection with the Employment Agreements, generally, the Company or the employee may terminate the Employment Agreement at any time with or without cause. In the event the Company terminates an Employment Agreement for cause or the employee terminates his or her Employee Agreement without cause, all of such employee's rights to compensation would cease upon the date of such termination. If the Company terminates an Employment Agreement without cause, the such employee terminates his or her Employment Agreement for cause, or in the event of a change in control, the Company is required to pay to such employee all compensation and other benefits that would have accrued and/or been payable to that employee during the full term of the Employment Agreement.

A change of control is considered to have occurred when, as a result of any type of corporate reorganization, execution of proxies, voting trusts or similar arrangements, a person or group of persons (other than incumbent officers, directors and principal shareholders of the Company) acquires sufficient control to

25

elect more than a majority of the Company's Board of Directors, acquires 50% or more of the voting shares of the Company, or the Company adopts a plan of dissolution of liquidation. The Employment Agreement also include a non-compete and nondisclosure provisions in which each employee agrees not to compete with or disclose confidential information regarding the Company and its business during the term of the Employment Agreement and for a period of one year thereafter.

COMPENSATION PURSUANT TO PLANS

STOCK OPTION PLANS. The Company has two Stock Option Plans. As of June 30, 2004, 7,047,524 options are outstanding under the 1998 Compensatory Stock Option Plan and 1,740,000 options are outstanding under the 2000 Compensatory Stock Option Plan, for a total of 8,787,524 options outstanding. A total of 8,322,524 options are exercisable at June 30, 2004, under these plans. During the fiscal year ended June 30, 2004, the Company did not grant any options. The Company has reserved 7,500,000 shares of common stock for issuance under the 1998 Compensatory Stock Option Plan. In January 2002, the Company's Board of Directors passed a resolution closing the 1998 Compensatory Stock Option Plan for issuance of new options. The Company has reserved 5,000,000 shares of common stock for issuance under the 2000 Compensatory Stock Option Plan.

During the fiscal year ended June 30, 2004, there was no action taken to reprice any options or warrants held by any officers, directors or employees.

COMPENSATION OF DIRECTORS

The Company holds quarterly meetings of the board of directors. Although the Company does not have any standard arrangements pursuant to which our directors are compensated for any services provided as a director or for attendance at meetings of the board of directors, if the financial situation of the Company is adequate, the Company compensates directors $1,000 per meeting, plus reasonable travel expenses.

During the fiscal year ended June 30, 2004, the officers and directors were not compensated for attendance at board meetings.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

BENEFICIAL OWNERSHIP

The following table sets forth certain information regarding the beneficial ownership of outstanding shares of the Company's common stock as of June 30, 2004 on a fully diluted basis, by (a) each person known by the Company to own beneficially 5% or more of the outstanding shares of common stock, (b) the Company's directors, Chief Executive Officer and executive officers whose total compensation exceeded $100,000 for the last fiscal year, and (c) all directors and executive officers of the Company as a group.

NAME, ADDRESS & NATURE OF BENEFICIAL OWNER	TITLE OF CLASS	AMOUNT	PERCENT OF CLASS9
The Paul H. Metzinger Trust Paul H. Metzinger, President & CEO, Director 370 17th Street, Suite 3640 Denver, CO 80202	Common Stock	4,543,188(1)	2.71%
The Cheri L. Metzinger Trust	Common Stock	4,543,188(2)	2.71%

Cheri L. Metzinger, Wife of Paul H. Metzinger 3236 Jellison Street Wheatridge, CO 80033			
Dr. Herbert J. Neuhaus, Director, 770 Maroonglen Court Colorado Springs, CO 80906	Common Stock	1,350,000(3)	0.81%
Dr. Michael E. Wernle, Former Ex VP of Strategic Business Development, Former Director, President & CEO of ExypnoTech Lise-Meitner-Strasse 1D-85662 Hohenbrunn Germany	Options to purchase Common Stock	1,350,000(4)	0.81%
Kristi J. Kampmann, Chief Financial Officer & Secretary 370 17th Street, Suite 3640 Denver, CO 80202	Common Stock	344,080(5)	0.21%
Dr. Robert E. Shaw, Director 8 Nicklaus Court Florham Park, NJ 07932	Options to purchase Common Stock	400,000(6)	0.24%
Dr. Noel Eberhardt, Former Director 21407 Krzich Place Cupertino, CA 95014	Options to purchase Common Stock	400,000(7)	0.24%
John Hoback, Director 20 White Heron Lake East Stroudsburg, PA 18301	Options to purchase Common Stock	400,000(8)	0.24%
All Officers & Directors as a Group (7 persons)	Common Stock	8,787,268	5.25%

----

1 Includes 1,072,937 common shares held directly and beneficially; 970,251 common shares that Mr. Metzinger owns beneficially though his wife and options held by Mr. Metzinger consisting of options to purchase 500,000 shares exercisable at $2.125 per share, options to purchase 500,000 shares exercisable at $0.52 per share and options to purchase 1,500,000 shares exercisable at $0.3250 per share.

2 Cheri L. Metzinger is the wife of Mr. Paul H. Metzinger, the Chief Executive Officer and President of the Company. This includes 970,251 shares held directly and beneficially and 1,072,937 common shares and 2,000,000 common shares subject to options owned beneficially by her husband.

3 Based on options to purchase 500,000 shares exercisable at $2.125 per share, options to purchase 100,000 shares exercisable at $2.75 per share, options to purchase 250,000 shares exercisable at $0.52 per share and options to purchase 500,000 shares exercisable at $0.20 per share.

4 Based on options to purchase 500,000 shares exercisable at $2.125 per share, options to purchase 160,000 shares exercisable at $2.75 per share, options to purchase 25,000 shares exercisable at $0.52 per share, options to purchase

300,000 shares at $0.45 per share and options to purchase 365,000 shares exercisable at $0.60 per share.
5 Based on 19,080 common shares and options to purchase 100,000 shares exercisable at $0.84 per share, options to purchase 75,000 shares exercisable at $2.125 per share, options to

purchase 50,000 shares exercisable at $2.75 per share, options to purchase 50,000 shares exercisable at $0.52 per share and options to purchase 50,000 shares exercisable at $0.3250 per share.
6 Based on options to purchase 250,000 shares exercisable at $0.97 per share, options to purchase 50,000 shares exercisable at $0.67 per share, and options to purchase 100,000 shares exercisable at $2.00 per share.
7 Based on options to purchase 300,000 shares exercisable at $0.70 per share and options to purchase 100,000 shares exercisable at $0.70 per share.
8 Based on options to purchase 400,000 shares exercisable at $1.35 per share.
9 Based on 90,059,033 shares of common stock issued and outstanding on June 30, 2004, assuming exercise of all 8,787,524 presently exercisable options and exercise of 68,594,353 outstanding warrants, there would be 167,440,910 shares outstanding. Mr. Metzinger's and Mrs. Metzinger's stock ownership are not duplicated in this computation.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information as of June 30, 2004 regarding compensation plans (including individual compensation arrangements) under which shares of our common stock are authorized for issuance. No class of our securities other than our common stock or options to purchaser our common stock is authorized for issuance under any of our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	0	-	0
Equity compensation plans not approved by security holders(1)	8,787,524	$ 1.00	3,712,476
Total	8,787,524	$ 1.00	3,712,476

(1) The material features of the plans not approved by the security holders are described herein under "ITEM 10-EXECUTIVE COMPENSATION-Compensation Pursuant to Plans."

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In March 2004, the Company entered into employment agreements, as previously discussed, with Mr. Metzinger, the President and Chief Executive Officer and a Director of the Company, and with Ms. Kampmann, the Chief Financial Officer and Secretary of the Company.

In September 2003, the Company entered into a joint venture agreement with Scimaxx, LLC to support the marketing of the Company's technology. The owners of Scimaxx, LLC include Dr. Neuhaus, a director and a former officer of the Company and several former employees of the Company.

In June 2003, Mr. Metzinger, the President and Chief Executive Officer and a director of the Company loaned the Company $10,000, in exchange for an unsecured 7% note payable due in December 2003. In January 2004, the Company paid Mr. Metzinger

the outstanding principal balance of this note and all accrued interest thereon in full.

In September 2003, Mr. Metzinger loaned the Company $30,000, in exchange for an unsecured 7% note payable due in September 2004. In January, 2004 the Company paid Mr. Metzinger the outstanding principal balance of this note, together with all accrued interest, in full.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this Report.

(i) Financial Statements. See Index to Financial Statements and Schedule on page F-2 of this Report.

(ii) Exhibits. The following is a complete list of exhibits filed as part of this Form 10-KSB. Exhibit numbers correspond to the numbers in the Exhibit Table of Item 601 of Regulation S-B.

EXHIBIT NO.	DESCRIPTION
2	Agreement dated February 26, 1998, by and among the Company, Particle Interconnect Corporation and Intercell Corporation 4
2.02	Application and Development Agreement, dated April 15, 1999, by and among the Company and Multitape & Co., Gmbh, KG. 2
2.03	Technology Cooperation Agreement, dated May 17, 1999, by and among the Company and Meinen, Zeigel & Co. 2
2.04	Technology Development Agreement, dated June 11, 1999, by and among the Company and ORGA Kartensysteme, GmbH. 2
2.05	Agreement-In-Principle, dated May 18, 1999, by and among the Company and Cirrex Corporation. 2
4.01	The Articles of Incorporation of the Company 3
4.02	Amendment to the Articles of Incorporation of the Company filed with the Nevada Secretary of State on March 20, 2002 3
4.03	Amendment to Articles of Incorporation filed with the Nevada Secretary of State on March 20, 2002

4.04	Certificate of Designation of Rights and Preferences of the Series A Preferred Stock 4
4.05	Certificate of Designation of Rights and Preferences of the Series B Preferred Stock 5
4.06	Certificate of Designation of Rights and Preferences of the Series C Preferred Stock 5
4.07	Form of Common Stock Certificate 3
4.08	The Amended and Restated By-laws of the Company 6
10.01	Employment Agreement, dated March 15, 2004, between Paul H. Metzinger and the Company 7
10.02	Employment Agreement, dated March 15, 2004, between Kristi J. Kampmann and the Company 7
11	Statement regarding Computation of Per Share Earnings 1
21	Subsidiaries of the Company 1
23	Consent of Independent Certified Public Accountants 1
31	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act 1
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act 1

---

1 Filed herewith.

2 Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1999.

3 Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1998.

4 Incorporated by reference to the Company's Current Report on Form 8-K, dated February 26, 1998.

5 Incorporated by reference to the Company's Current Report on Form 8-K, dated July 23, 1998.

6 Incorporated by reference to Amendment No. 1 to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003.

7 Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 2004.

(b) REPORTS ON FORM 8-K.

The Company filed no reports on Form 8-K during the fourth quarter of the year ended June 30, 2004.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees billed by Gelfond Hochstadt Pangburn, P.C., the Company's independent auditors, for professional services in the fiscal years ended June 30, 2004 and 2003 are as follows:

Services Rendered	2004	2003
Audit Fees	$57,060	$49,800
Audit Related Fees	0	0
All Other Fees	0	0

The Company's corporate tax returns are prepared by the firm of Thompson & Lowe, P.C. Fees for the fiscal year ended June 30, 2004 and 2003 were $10,000 and $13,610, respectively.

The engagement of the auditors was approved by the Company's Board of Directors prior to the start of the audit for the fiscal year ended June 30, 2004.

30

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NANOPIERCE TECHNOLOGIES, INC.
(a Nevada corporation)

Date: September 30, 2004 By: /s/ Paul H. Metzinger

Paul H. Metzinger, Director, Chief Executive Officer & President

Date: September 30, 2004 By: /s/ Kristi J. Kampmann

Kristi J. Kampmann, Chief Financial Officer & Chief Accounting Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: September 30, 2004 By: /s/ Paul H. Metzinger

Paul H. Metzinger, Director, Chief Executive Officer & President

Date: September 30, 2004 By: /s/ Herbert J. Neuhaus

Herbert J. Neuhaus, Director & Executive Vice-President of Technology & Marketing

Date: September 30, 2004 By: /s/ Robert Shaw

Robert Shaw, Director

Date: September 30, 2004 By: /s/ John Hoback

John Hoback, Director

31

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE EXCHANGE ACT BY NON-REPORTING ISSUERS

No annual report covering the Company's fiscal year ended June 30, 2004, nor any proxy material, has been sent to security holders of the Company.

1

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Nanopierce Technologies, Inc.
Denver, Colorado

We have audited the accompanying consolidated balance sheet of Nanopierce Technologies, Inc. and subsidiaries as of June 30, 2004, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the two-year period ended June 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nanopierce Technologies, Inc. and subsidiaries as of June 30, 2004, and the results of their operations and their cash flows for each of the years in the two-year period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company reported a net loss of $1,558,083 for the year ended June 30, 2004, and an accumulated deficit of $22,631,703 as of June 30, 2004. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

GELFOND HOCHSTADT PANGBURN, P.C.

Denver, Colorado
September 24, 2004

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheet
June 30, 2004

Assets

Current assets:	
Cash and cash equivalents	$ 1,018,408
Accounts receivable, net	5,809
Prepaid expenses	44,727
Total current assets	1,068,944
Property and equipment:	
Office equipment and furniture	66,356
Less accumulated depreciation	(43,257)
	23,099
Other assets:	
Deposits and other	19,663
Investments in affiliates (Note 6)	303,966
	323,629
Total assets	$ 1,415,672

Liabilities and Shareholders' Equity

Current liabilities:	
Accounts payable, including $6,116 payable to affiliate (Note 6)	$ 108,856
Note payable (Note 7)	61,400
Total liabilities (all current)	170,256
Commitments and contingencies (Notes 4, 9 and 12)	
Shareholders' equity (Note 8):	
Preferred stock; $0.0001 par value; none issued and outstanding; 5,000,000 shares authorized	
Common stock; $0.0001 par value; 200,000,000 shares authorized 90,059,033 shares issued and outstanding	9,006
Additional paid-in capital	23,744,891
Accumulated other comprehensive income	123,222
Accumulated deficit	(22,631,703)
Total shareholders' equity	1,245,416
Total liabilities and shareholders' equity	$ 1,415,672

See notes to consolidated financial statements.

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years Ended June 30, 2004 and 2003

	2004	2003
Revenues	$ 34,258	37,017
Operating expenses:		
General and administrative	1,312,519	2,414,077
Research and development	41,849	316,403
Selling and marketing	37,033	238,817
Impairment of intellectual property and equipment (Note 1)	608,061	210,000
	1,999,462	3,179,297
Loss from operations	(1,965,204)	(3,142,280)

Other income (expense):		
Interest income	2,550	7,251
Extinguishment of liabilities (Note 7)	52,500	-
Equity losses of affiliates (Note 6)	(99,922)	-
Interest expense	(2,889)	(38)
	(47,761)	7,213
Loss from continuing operations	(2,012,965)	(3,135,067)
Discontinued operations; income(loss) from operations of subsidiary (Note 3)	454,882	(882,718)
Net loss	$(1,558,083)	(4,017,785)
Basic and diluted loss per share:		
Loss from continuing operations	$ (0.03)	(0.05)
Income (loss) from discontinued operations	0.01	(0.02)
Net loss per share, basic and diluted	$(0.02)	(0.07)
Weighted average number of common shares outstanding	75,116,717	61,647,688

See notes to consolidated financial statements.

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss
Years Ended June 30, 2004 and 2003

	2004	2003
Net loss	$(1,558,083)	(4,017,785)
Change in unrealized gain on securities	(141)	(237)
Change in foreign currency translation adjustments	(66,727)	48,915
Comprehensive loss	$(1,624,951)	(3,969,107)

See notes to consolidated financial statements.

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years Ended June 30, 2004 and 2003

	Common Stock Shares	Common Stock Amount	Additional paid-in Capital	Accumulated other comprehensive income	Accum def
Balances, July 1, 2002	57,637,002	$ 5,764	$ 19,496,447	$ 141,412	$ (17,
Common stock issued for services	14,000	1	9,344	-	
Warrants issued for services	-	-	3,190	-	
Common stock and warrants issued for cash (net of offering costs of $75,500)	7,340,348	734	1,826,032	-	
Common stock issued upon cashless exercise of warrants	56,388	5	(5)	-	
Common stock issued upon cashless exercise of option	7,000	1	(1)	-	
Warrant issued in exchange for deferred consulting costs	-	-	230,400	-	
Extension of term of warrant	-	-	2,400	-	
Net loss	-	-	-	-	(4,
Other comprehensive income:					
Change in unrealized gain on securities	-	-	-	(237)	
Foreign currency translation adjustments	-	-	-	48,915	
Balances, June 30, 2003	65,054,738	$ 6,505	21,567,807	190,090	(21,

(Continued)

F-6

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity
Years Ended June 30, 2004 and 2003
(Continued)

	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated other comprehensive income	Accumu defic
Balances, July 1, 2003	65,054,738	$ 6,505	21,567,807	190,090	(21,073
Common stock and warrants issued for cash (net of offering costs of $272,000)	20,769,231	2,077	1,825,923	-	
Common stock issued in satisfaction of payable	200,000	20	3,615	-	
Common stock issued upon exercise of warrants (net of offering costs of $ 37,050)	3,850,000	385	347,565	-	
Common stock issued upon cashless exercise of warrants	185,064	19	(19)	-	
Net loss	-	-	-	-	(1,558
Other comprehensive Loss:					
Change in unrealized gain on securities	-	-	-	(141)	
Foreign currency translation adjustments	-	-	-	(66,727)	
Balances, June 30, 2004	90,059,033	$ 9,006	23,744,891	123,222	(22,631

See notes to consolidated financial statements.

F-7

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Net loss	$ (1,558,083)	(4,017,785)
Adjustments to reconcile net loss to net cash used in operating activities from continuing operations:		
(Income) loss from discontinued operations	(454,882)	882,718
Amortization expense	158,674	150,916
Depreciation expense	10,657	157,393
Equity losses of affiliates	99,922	-
Gain on extinguishment of liabilities	(52,500)	-
Amortization of deferred consulting costs	122,459	107,941
Impairment of intellectual property and equipment	608,061	210,000
Provision for doubtful receivable	58,074	-
Stock-based compensation expense	-	14,935
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(11,883)	29,139
Decrease in prepaid expense	8,646	4,001
Decrease in deposits and other assets	-	240,013
(Decrease) increase in accounts payable and accrued liabilities	(188,359)	466,482
Total adjustments	358,869	2,263,538
Net cash used in operating activities from continuing operations	(1,199,214)	(1,754,247)
Cash flows from investing activities:		
Advances to equity investee	(50,000)	-
Increase in patent and trademark applications	(68,189)	(239,556)
Purchases of property and equipment	(1,575)	(351,431)
Payments received on notes receivable	-	170,779
Cash effect of ExypnoTech deconsolidation	(115,151)	-
Net cash used in investing activities from continuing operations	(234,915)	(420,208)
Cash flows from financing activities:		
Issuance of common stock and warrants for cash	2,175,950	1,826,766
Proceeds from notes payable	165,000	10,000
Payments of notes payable	(205,700)	-
Net cash provided by financing activities from continuing operations	2,135,250	1,836,766
Effect of exchange rate changes on cash and cash equivalents	127,038	44,098
Net cash used in discontinued operations	(10,492)	(184,877)

Net increase (decrease) in cash and cash equivalents	817,667	(478,468)
Cash and cash equivalents, beginning	200,741	679,209
Cash and cash equivalents, ending	$ 1,018,408	200,741

(Continued)

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended June 30, 2004 and 2003
(Continued)

	2004	2003
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,851	5,923
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock in satisfaction of payable	$ 3,635	-
Investment in joint venture in exchange for equipment	$ 132,000	
Issuance of note payable in exchange for accounts payable	$ 92,100	-
Patent costs incurred on behalf of equity investee in exchange for receivable	$ 8,074	-
Warrant issued in exchange for deferred consulting costs	-	230,400

See notes to consolidated financial statements.

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
Years Ended June 30, 2004 and 2003

1. BASIS OF PRESENTATION, BUSINESS, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION:

The accompanying consolidated financial statements include the accounts of NanoPierce Technologies, Inc., a Nevada corporation (the Company), its wholly owned subsidiaries, NanoPierce Connection Systems, Inc., a Nevada corporation (NCOS) which was incorporated in November 2001, and its wholly-owned foreign subsidiaries, NanoPierce Card Technologies GmbH, Hohenbrunn (NCT), and through December 11, 2003, ExypnoTech, GmbH (EPT, formed in February 2002) (Note 6). During the year ended June 30, 2003, NCT discontinued its operations, and in June 2004, NCT was dissolved (Note 3). In June 2004, the Company formed ExypnoTech, LLC (ET LLC), as a wholly-owned subsidiary to market, primarily in the United States, RFID (Radio Frequency Identification) components manufactured by EPT. All significant intercompany accounts and transactions have been eliminated in consolidation.

BUSINESS:

The Company has been engaged in the design, development and licensing of products using its intellectual property, the PI Technology through its subsidiaries and joint venture arrangements. The PI Technology consists of patents, pending patent applications, patent applications in preparation, trade secrets, trade names, and trademarks. The PI Technology improves electrical, thermal and mechanical characteristics of electronic products. The Company has designated its PI Technology as the NanoPierce Connection System (NCS) and has marketed the PI Technology to companies in various industries for a wide range of applications. As discussed below, the Company made a decision to abandon its PI technology in the fourth quarter ended June 30, 2004.

Through June 30, 2004, NCOS activities primarily consisted of research and development, marketing and administrative functions. Through June 30, 2004, EPT activities primarily consisted of manufacturing inlay components used in, among other things Smart Labels, which is a paper sheet holding a chip-containing module that is capable of memory storage and/or processing. Scimaxx Solutions, LLC, which is an equity investment (Note 6), is primarily involved in research and development and marketing functions.

ET LLC business activities are to include the marketing and sales of RFID products in North America. ET LLC had no revenues or operations through June 30, 2004.

USE OF ESTIMATES IN THE FINANCIAL STATEMENTS:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

F-10

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
Years Ended June 30, 2004 and 2003

FAIR VALUE OF FINANCIAL INSTRUMENTS:

The fair values of the Company's cash and cash equivalents, accounts receivable, accounts payable and note payable approximate their carrying amounts due to the short maturities of these instruments.

CASH AND CASH EQUIVALENTS:

The Company considers all highly liquid investments with an original maturity of three months or less and money market instruments to be cash equivalents.

DEFERRED CONSULTING AND LEGAL COSTS:

In January 2003, the Company entered into a twelve-month financial advisory and exclusive placement agent agreement with a third party, in which this party acted as financial advisor to the Company and served as its exclusive placement agent for a private placement of equity securities during the twelve-month term of the agreement. Compensation included a non-refundable retainer fee, which consisted of a warrant to purchase up to 450,000 shares of the Company's common stock (Note 8). The warrant was valued at approximately $230,400 using the Black-Scholes pricing model. The deferred cost was amortized on a straight-line basis over a twelve-month period from the date of issuance, which represented the estimated period the expenses were incurred. During the years ended June 30, 2004 and 2003, $122,459 and $107,941 were expensed in connection with the warrant.

AVAILABLE FOR SALE SECURITIES

Available for sale securities consist of 1,180 shares of the common stock of Intercell International Corporation (Intercell). These securities are carried at fair value ($391 at June 30, 2004) based upon quoted market prices, and are included in other long-term assets in the Company's June 30, 2004 consolidated balance sheet. Unrealized gains and losses are computed on the basis of specific identification and are reported as a separate component of comprehensive income (loss), included as a separate item in shareholders' equity. The Company reported a decrease in the unrealized loss on available for sale securities of $141 in 2004 and $237 in 2003. At June 30, 2004, the unrealized loss on available for sale securities was $24. Realized gains, realized losses, and declines in value, judged to be other-than temporary, are included in other income (expense). During the years ended June 30, 2004 and 2003, the Company did not sell any available for sale securities.

IMPAIRMENT OF INTELLECTUAL PROPERTY RIGHTS AND PATENT AND TRADEMARK APPLICATIONS:

Through the third quarter of the year ended June 30, 2004, the Company had recorded intellectual property rights and patent and trademark applications. Through June 30, 2003 the intellectual property was amortized using the straight-line method over 10 years, which was based on an average protection period of underlying patents. As discussed below, in conjunction with the Company's 2003 assessment of long-lived assets, the Company made a decision to utilize a remaining useful life of 2.5 years beginning July 1, 2003, which was consistent with the remaining average patent protection period of the remaining intellectual property.

F-11

NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
Years Ended June 30, 2004 and 2003

Costs incurred to establish patents and trademarks were capitalized and amortized beginning at the time of the application over the shorter of the estimated useful life of the technology or patent term. Patent and trademark applications were amortized over a period of 10 years. Unsuccessful patent and trademark application costs were expensed when determined to be unsuccessful.

Management assesses the carrying values of long-lived assets for impairment when circumstances warrant such a review. In performing this assessment, management considers current market analysis and appraisal of the PI Technology, along with estimates of future cash flows and projected operating information. The Company recognizes impairment losses when undiscounted cash flows estimated to be generated from the long-lived assets are less than the amount of unamortized assets.

During the fourth quarter ended June 30, 2004, the Company made a decision to abandon its intellectual property rights, patents and patent applications, and trademarks. This decision was based on factors including the Company's evaluation of past and current operating results, and potential changes in the Company's business plan, which involve investigating potential acquisition candidates outside of the technology industry (Note 2). As a result of this decision, the Company recorded an impairment charge of $608,061 in the fourth quarter ended June 30, 2004.

During the fourth quarter ended June 30, 2003, the Company determined that an impairment charge of $210,000 to intellectual property, patents, trademarks and certain fixed assets was necessary. The decision to record this impairment was based primarily on the remaining life of the patents underlying the intellectual property and the Company's assessment of existing operational and marketing activities.

PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost. Depreciation expense is provided by use of accelerated and straight-line methods over the estimated useful lives of the assets, which range from five to seven years.

REVENUE RECOGNITION:

Revenues from the sales of product are recognized at time of shipment. NCT periodically 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 provided and when no significant obligations remain related to implementation. Revenues are deferred if significant future obligations are to be fulfilled or if collection is not probable. At June 30, 2004, there were no deferred revenues related to contract services in progress.

The Company grants credit, without collateral, to its customers. Management reviews trade receivables on an ongoing basis to determine if any receivables will potentially be uncollectible. The Company includes trade receivable balances that are determined to be uncollectible in an overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. At June 30, 2004, no allowance for trade receivables was considered necessary; however an allowance of $58,074 was established for receivables from affiliates (Note 6).

RESEARCH AND DEVELOPMENT:

The Company includes in research and development expense: payroll, facility rent, lab supplies and other expense items directly attributable to research and development. The Company does not contract its research and development work, nor does it, at this time, perform research and development work for others.

STOCK-BASED COMPENSATION:

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation, allows companies to choose whether to account for employee stock-based compensation on a fair value method, or to continue accounting for such compensation under the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). The Company has chosen to continue to account for employee stock-based compensation using APB 25.

Had compensation cost for the Company's stock plans been determined based on fair value at the grant dates for awards under the plans consistent with the method prescribed under SFAS No. 123, the Company's net loss and net loss per share would have changed to the pro forma amounts indicated below:

	2004	2003
Net loss, as reported	$(1,558,083)	(4,017,785)
Total stock-based employee compensation expense determined under fair value based method for all awards	-	(233,000)
Net loss, pro forma	$(1,558,083)	(4,250,785)
Net loss per share as reported	$(0.02)	(0.07)
Net loss per share pro forma	$(0.02)	(0.07)

The fair value of options granted during 2003 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Expected dividend yield	0%
Expected stock price volatility	105%
Risk-free interest rate	2.9%
Expected life of options	6.5 years

No options were granted during the year ended June 30, 2004.

FOREIGN CURRENCY TRANSLATION:

The financial statements of the Company's foreign subsidiaries are measured using the local currency (the Euro) as the functional currency. Assets and liabilities of the subsidiaries are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the period. The resulting cumulative translation adjustments have been recorded as a component of comprehensive income (loss), included as a separate item in shareholders' equity.

The cumulative translation adjustment was approximately $190,000 at July 1, 2003 and approximately $123,000 at June 30, 2004. In June 2004, a $74,814 reduction to other comprehensive income was recorded and recognized as a component of gain on discontinued operations as a result of the liquidation of NCT.

FOREIGN CURRENCY TRANSACTIONS:

Gains and losses from foreign currency transactions are included in net income (loss). Foreign currency transaction gains and losses were not significant during the years ended June 30, 2004 and 2003.

COMPREHENSIVE INCOME:

SFAS No. 130, Reporting Comprehensive Income, requires the reporting and display of comprehensive income and its components. SFAS No. 130 requires unrealized gains and losses on the Company's foreign currency translation adjustments to be included in comprehensive income (loss).

LOSS PER SHARE:

SFAS No. 128, Earnings per Share, requires dual presentation of basic and diluted earnings or loss per share (EPS) with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Loss per share of common stock is computed based on the average number of common shares outstanding during the year. Stock options and warrants are not considered in the calculation, as the impact of the potential common shares (77,381,877 shares at June 30, 2004 and 17,167,710 shares at June 30, 2003) would be to decrease loss per share. Therefore, diluted loss per share is equivalent to basic loss per share.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

In January 2003, the Financial Accounting Standards Board (FASB) issued SFAS Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"), which changes the criteria by which one company includes another entity in its consolidated financial statements. FIN 46 requires a variable interest entity ("VIE") to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. In December 2003, the FASB approved a partial deferral of FIN 46 for certain VIE's created before February 2003 to the first interim or annual reporting period that ends after March 15, 2004. The adoption of FIN 46 did not impact the Company's financial position or results of operations.

In May 2003, the 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 adoption of SFAS No. 150 did not have an impact on the Company's results of operations or financial condition.

2. GOING CONCERN AND MANAGEMENT'S PLANS:

The Company's financial statements for the year ended June 30, 2004 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company reported a net loss of $1,558,083 for the year ended June 30, 2004, and an accumulated deficit of $22,631,703 as of June 30, 2004. The Company did not recognize any significant revenues from its PI technology during the year ended June 30, 2004, the Company's subsidiary NCT was dissolved in June 2004, and in December 2003, the Company sold a controlling 51% interest in EPT. In addition, the Company has abandoned and recorded an impairment to its intellectual property and is now considering non-technology based alternatives in connection with its ongoing business plan.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

To address its liquidity needs, the Company is relying on cash received from a January 2004, equity financing agreement, of which the Company initially received $1.8 million, net offering costs, upon the issuance of restricted common stock (Note 8). The Company intends to use these funds to support operations and for possible business acquisitions.

Currently, the Company does not have a revolving loan agreement with any financial institution, nor can the Company provide any assurance it will be able to enter into any such agreement in the future, or be able to raise funds through a further issuance of debt or equity in the Company.

3. DISCONTINUED OPERATIONS:

On April 1, 2003, NCT filed insolvency with the Courts of Munich, Germany. The insolvency filing 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 NCT operations and liquidate NCT, pursuant to a plan of self-liquidation as provided by German law. In June 2004, NCT completed its plan of self-liquidation, and the German court legally dissolved NCT.

At June 30, 2004, NCT has no remaining assets or liabilities. NCT's revenues for the years ended June 30, 2004 and 2003 reported in discontinued operations were $0 and $128,947, respectively. The Company recorded a $454,882 gain on the disposal of NCT in 2004, which was primarily due to the extinguishment of NCT liabilities and gains recognized from the sales of equipment. In 2003, NCT incurred a loss of $882,718. NCT did not incur any income taxes in 2004 or 2003.

4. RISK CONSIDERATIONS:

BUSINESS RISK:

The Company is subject to risks and uncertainties common to technology-based companies, including rapid technological change, dependence on principal products and third party technology, new product introductions and other activities of competitors, dependence on key personnel, and limited operating history.

INTERNATIONAL OPERATIONS:

The Company's foreign subsidiary (NCT) operations and foreign equity investment (EPT) operations are located in Germany. NCT and EPT transactions are conducted in currencies other than the U.S. dollar (the currency into which NCT's and EPT's 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, the Company is subject to risks including adverse developments in the foreign political and economic environment, trade barriers, managing foreign operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a material adverse effect on the Company's financial condition or results of operations in the future.

5. NOTES RECEIVABLE:

In October 2002, the remaining balance ($144,709) of an unsecured, 12% note receivable and related interest from a third party investment group involved in assisting the Company with its financing efforts were received in full.

Prior to July 1, 2002, the Company loaned $50,000 to a representative of the investment group described above in exchange for an unsecured, 8% note receivable due in October 2002. A payment of $23,930 was received in May 2002. In September 2002, the remaining balance of the note ($26,070) and related interest was received in full.

6. INVESTMENTS IN AFFILIATES:

INVESTMENT IN EPT:

On December 11, 2003, a German entity formed, by former employees of EPT, purchased a controlling 51% equity interest in EPT in exchange for $98,000, of which $62,787 has been received through June 30, 2004. No gain or loss was incurred by the Company as a result of this transaction. As a result of the Company's reduced ownership interest and loss of control of EPT, the Company deconsolidated EPT as of December 11, 2003, and began accounting for its investment in EPT under the equity method of accounting at that time. Under the equity method of accounting, the carrying amount of the Company's investment in EPT ($203,654 at June 30, 2004) is adjusted to recognize the Company's proportionate share of EPT's income (loss) each period.

Unaudited financial information of EPT as of June 30, 2004, and for the period from December 11, 2003 through June 30, 2004 is as follows:

Assets:	
Current assets(1)	$ 93,497
Equipment	295,859
Total assets	$ 389,356
Liabilities and members' equity:	
Current liabilities(2)	$ 172,370
Members' equity	216,986
Total liabilities and members' equity	$ 389,356

	December 11, 2003 through June 30, 2004
Revenues(3)	$ 42,143
Expenses	(144,094)
Net loss	$ (101,951)