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NANOPIERCE TECHNOLOGIES INC  
Form 10QSB  
November 14, 2003

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

Commission file number 33-19598-D

NANOPIERCE TECHNOLOGIES, INC.  
-----

(Exact name of small business issuer as specified in its charter)

Nevada  
-----

84-0992908  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. employer  
identification number)

370 17th Street, Suite 3640  
Denver, Colorado 80202

(Address of principal executive offices ) (Zip Code)

Issuer's telephone number, including area code: (303) 592-1010

Not applicable

(Former name, former address or former fiscal year, if changed since last  
report)

Indicate by check mark whether the issuer (1) has filed all reports required to  
be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days. Yes X No  
--- ---

As of November 13, 2003 there were 66,023,969 shares of the registrant's sole  
class of common shares outstanding.

Transitional Small Business Disclosure Format Yes No X  
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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## PART I - FINANCIAL INFORMATION

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### INDEPENDENT ACCOUNTANTS' REPORT

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Board of Directors  
NanoPierce Technologies, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of NanoPierce Technologies, Inc. and subsidiaries as of September 30, 2003, the related condensed consolidated statements of operations and comprehensive loss for the three-month periods ended September 30, 2003 and 2002, the condensed consolidated statement of changes in shareholders' equity for the three-month period ended September 30, 2003, and the condensed consolidated statements of cash flows for the three-month periods ended September 30, 2003 and 2002. These interim condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim

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financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

GELFOND HOCHSTADT PANGBURN, P.C.

Denver, Colorado  
November 12, 2003

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### NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheet September 30, 2003 (Unaudited)

#### Assets

-----

#### Current assets:

Cash and cash equivalents	\$ 86,955
Accounts receivable	9,352
Inventory	39,787
Deferred consulting costs and other prepaid expenses	83,160
Assets of discontinued operations (Note 2)	26,364
	-----
Total current assets	245,618
	-----

#### Property and equipment:

Machinery	458,601
Office equipment and furniture	331,113
Leasehold improvements	138,776
	-----
	928,490
Less accumulated depreciation	(415,907)
	-----
	512,583
	-----

#### Other assets:

Assets of discontinued operations (Note 2)	17,653
Deposits and other	19,958
Intellectual property rights, net of accumulated amortization of \$559,315	240,685
Patent and trademark applications, net of accumulated amortization of \$91,493	453,148
	-----
	731,444

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Total assets	\$1,489,645
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(Continued)

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Condensed Consolidated Balance Sheet  
September 30, 2003  
(Unaudited)  
(Continued)

Liabilities and Shareholders' Equity

Current liabilities:	
Accounts payable	\$ 620,100
Accrued liabilities	47,618
Notes payable - related parties (Note 4)	75,000
Liabilities of discontinued operations (Note 2)	408,098
	-----
Total liabilities - all current	1,150,816
	-----
Minority interest in joint venture (Note 5)	1,205
	-----
Commitments and contingencies (Notes 2, 4, 5 and 7)	
Shareholders' equity (Note 6):	
Preferred stock; \$0.0001 par value; 5,000,000 shares authorized:	
Series A; no shares issued and outstanding	
Series B; maximum of 75,000 shares issuable; no shares issued and outstanding	
Series C; maximum of 700,000 shares issuable; no shares issued and outstanding	
Common stock; \$0.0001 par value; 200,000,000 shares authorized 66,023,969 shares issued and outstanding	6,602
Additional paid-in capital	21,671,345
Accumulated other comprehensive income	188,161
Accumulated deficit	(21,528,484)
	-----
Total shareholders' equity	337,624
	-----
Total liabilities and shareholders' equity	\$ 1,489,645
	=====

See notes to condensed consolidated financial statements.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
 Condensed Consolidated Statements of Operations  
 Three Months Ended September 30, 2003 and 2002  
 (Unaudited)

	----- 2003 -----	----- 2002 -----
Revenues	\$ 25,051	-
Operating expenses:		
Research and development	46,655	95,173
General and administrative	414,075	634,173
Selling and marketing	24,180	66,953
	----- 484,910 -----	----- 796,299 -----
Loss from operations	( 459,859)	( 796,299)
Other income (expense):		
Interest income	3,418	10,288
Minority interest in joint Venture loss (Note 5)	3,794	-
Interest expense	( 297)	-
	----- 6,915 -----	----- 10,288 -----
Loss from continuing operations	( 452,944)	( 786,011)
Discontinued operations, loss from operations of subsidiary (Note 2)	( 1,920)	( 232,714)
Net loss	\$ ( 454,864)	(1,018,725)
Basic and diluted loss per share:		
Loss from continuing operations	\$ ( 0.01)	( 0.02)
Loss from discontinued operations	( -)	( -)
Net loss per share, basic and diluted	\$ ( 0.01)	( 0.02)
Weighted average number of common shares outstanding	----- 62,404,043 -----	----- 57,643,545 -----

See notes to condensed consolidated financial statements.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
 Condensed Consolidated Statements of Comprehensive Loss  
 Three Months Ended September 30, 2003 and 2002  
 (Unaudited)

	----- 2003 -----	----- 2002 -----
Net loss	\$ (454,864)	(1,018,725)
Change in unrealized gain on securities	(119)	(118)
Change in foreign currency translation adjustments	( 1,810)	( 4,900)
	-----	-----
Comprehensive loss	\$ ( 456,793)	(1,023,743)
	=====	=====

See notes to condensed consolidated financial statements.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
 Condensed Consolidated Statement of Changes in Shareholders' Equity  
 Three Months Ended September 30, 2003  
 (Unaudited)

	Common Stock		Additional	Accumulated	Accumulated	T
	----- Shares -----	----- Amount -----	----- paid-in capital -----	----- other comprehensive income -----	----- deficit -----	----- share eq -----
Balances, July 1, 2003	65,054,738	\$ 6,505	21,567,807	190,090	(21,073,620)	
Common stock issued for cash	769,231	77	99,923	-	-	
Common stock issued in satisfaction of payable	200,000	20	3,615	-	-	
Net loss	-	-	-	-	(454,864)	
Other comprehensive income:						
Change in unrealized gain on securities	-	-	-	(119)	-	

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Foreign currency translation adjustments	-	-	-	(1,810)	-
Balances, September 30, 2003	66,023,969	\$ 6,602	21,671,345	188,161	(21,528,484)

See notes to condensed consolidated financial statements.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
Three Months Ended September 30, 2003 and 2002  
(Unaudited)

	2003	2002
Cash flows from operating activities:		
Net loss	\$ ( 454,864)	(1,018,725)
Adjustments to reconcile net loss to net cash used in operating activities from continuing operations:		
Loss from discontinued operations	1,920	232,714
Amortization expense	38,616	32,239
Depreciation expense	33,026	35,189
Amortization of deferred consulting costs	58,073	-
Minority interest in joint venture	( 3,794)	-
Expenses incurred in exchange for common stock, warrants and options	-	12,535
Changes in operating assets and liabilities:		
Decrease in accounts receivable	9,780	56,598
Decrease in prepaid expense	27,818	20,450
Increase in deposits and other assets	( 330)	( 683)
Increase in accounts payable and accrued liabilities	44,764	78,053
Total adjustments	209,873	467,095
Net cash used in operating activities from continuing operations	( 244,991)	( 551,630)
Cash flows from investing activities:		
Increase in patent and trademark applications	(35,480)	( 19,973)
Purchase of property and equipment	( 1,575)	( 2,938)
Payments received on note receivable	-	95,862
Net cash (used in) provided by investing activities from continuing operations	(37,055)	72,951
Cash flows from financing activities:		
Issuance of common stock for cash	100,000	-

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Cash received in conjunction with joint venture	5,000	-
Proceeds from notes payable	65,000	-
	-----	-----
Net cash provided by financing activities from continuing operations	170,000	-
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	2,359	(3,711)
	-----	-----
Net cash used in discontinued operations	( 4,097)	( 738)
	-----	-----
Net decrease in cash and cash equivalents	(113,784)	( 483,128)
Cash and cash equivalents, beginning	200,739	679,209
	-----	-----
Cash and cash equivalents, ending	\$ 86,955	196,081
	=====	=====
Supplemental disclosure of non-cash financing activities: Issuance of common stock in satisfaction of payable	\$ 3,635	-
	=====	=====

See notes to condensed consolidated financial statements.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
Three Months Ended September 30, 2003 and September 30, 2002  
(Unaudited)

1. Business, Organization and Summary of Significant Accounting Policies:

Presentation of Interim Information:

The accompanying condensed consolidated financial statements include the accounts of NanoPierce Technologies, Inc., a Nevada corporation (the Company), its wholly owned subsidiary, 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 ExypnoTech, GmbH (EPT), both German subsidiaries, which were incorporated in January 2000 and February 2002, respectively, and its joint venture Scimaxx Solutions, LLC ("Scimaxx Solutions"), a Colorado limited liability company, which was formed in September 2003 (Note 5). During the fiscal year ended June 30, 2003, NCT effectively discontinued its operations (Note 2). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements include all material adjustments, including all normal and recurring adjustments, considered necessary to present fairly the financial position and operating results of the Company for the periods presented. The financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the Company's last Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003. It is the Company's opinion that when the interim statements are read in



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conjunction with the June 30, 2003 Annual Report on Form 10-KSB, the disclosures are adequate to make the information presented not misleading. Interim results are not necessarily indicative of results for a full year or any future period.

The Company's financial statements for the three months ended September 30, 2003 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 \$454,864 for the three months ended September 30, 2003, and an accumulated deficit of \$21,528,484 as of September 30, 2003. The Company has not recognized any significant revenues from its PI technology, and the Company expects to use cash in operations during the next year. In addition, a letter of intent with Meshed Systems, GmbH ("Meshed Systems"), in which Meshed Systems was to make a 100,000 Euro investment in EPT for a 51% equity interest was cancelled in November 2003. The Company has also experienced difficulty and uncertainty in meeting its liquidity needs. 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.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
Three Months Ended September 30, 2003 and September 30, 2002  
(Unaudited)

To address its current cash flow concerns, the Company issued 769,231 shares of common stock in exchange for \$100,000 cash during the three months ended September 30, 2003 (Note 6). The Company is in discussions with investment bankers and financial institutions attempting to raise additional funds to support current and future operations. This includes attempting to raise additional working capital through the sale of additional capital stock or through the issuance of debt (Note 7).

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.

### Business:

The Company is engaged in the design, development and licensing of products using its intellectual property, the PI Technology. 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 and is commercializing its PI Technology as the NanoPierce Connection System (NCS(TM)) and has begun to market the PI Technology to companies in various industries for a wide range of applications.

NCOS business activities are to include the licensing, sale and/or manufacturing of certain electronic products using the NCS technology. Through September 30, 2003, NCOS activities have primarily consisted of research and development, marketing and administrative functions. Prior to discontinuing operations, NCT activities consisted primarily of providing software development and implementation services, and performing administrative, research and development, and selling and marketing activities. Through September 30, 2003, EPT activities have primarily consisted of manufacturing inlay components used in, among other things Smart Labels, which is a paper sheet holding a

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chip-containing module that is capable of memory storage and/or processing. Beginning in September 2003, Scimaxx Solutions activities primarily represent research and development and marketing functions.

### Business Risk:

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

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
Three Months Ended September 30, 2003 and September 30, 2002  
(Unaudited)

### International Operations:

The Company's foreign subsidiaries (NCT and EPT) operations are located in Germany. NCT and EPT 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, the Company is subject to risks including adverse developments in the foreign political and economic environments, 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.

### Loss Per Share:

Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share, requires dual presentation of basic and diluted earnings or loss per share (EPS) with a reconciliation 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 period. Stock options and warrants are not considered in the calculation, as the impact of the potential common shares (17,097,710 shares at September 30, 2003 and 10,927,661 shares at September 30, 2002) would be to decrease loss per share. Therefore, diluted loss per share is equivalent to basic loss per share.

### Stock Based Compensation:

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.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES

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Notes to Condensed Consolidated Financial Statements  
 Three Months Ended September 30, 2003 and September 30, 2002  
 (Unaudited)

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 for the three months ended September 30, 2003 and 2002, respectively, would have changed to the pro forma amounts indicated below:

	September 30, 2003	September 30, 2002
	-----	-----
Net loss, as reported	\$ ( 454,864)	(1,018,725)
Total stock-based employee compensation expense determined under fair value based method for all awards	-	( 58,000)
	-----	-----
Net loss, pro forma	\$ ( 454,864)	(1,076,725)
	=====	=====
Net loss per share as reported	\$ ( 0.01)	( 0.02)
Net loss per share pro forma	\$ ( 0.01)	( 0.02)

The fair value of options granted during the three months ended September 30, 2002 (Note 6) is 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 three months ended September 30, 2003.

### 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. The consolidation requirements of FIN 46 apply immediately to VIE's created after January 31, 2003, and apply in the first fiscal period beginning after December 15, 2003, for VIE's created prior to February 1, 2003. The Company is not a party to any VIE's created prior to January 31, 2003. The Company has applied the provisions of FIN 46 in connection with a September 15, 2003 investment in a joint venture (Note 5).

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
 Notes to Condensed Consolidated Financial Statements  
 Three Months Ended September 30, 2003 and September 30, 2002  
 (Unaudited)

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### 2. 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 operations at NCT and liquidate NCT, either through the German courts, or through a self-liquidation. In September 2003, the German court rejected the application for insolvency; therefore NCT implemented a plan of self-liquidation as provided by German law. The Company anticipates that liquidation will be completed by June 30, 2004.

At September 30, 2003, the carrying amounts of NCT's assets and liabilities are as follows:

Cash	\$14,502
Accounts receivable	9,890
Other assets	1,972
	-----
Total current assets	26,364
	-----
Machinery, net	12,885
Office equipment, net	4,768
	-----
	17,653
	-----
Total assets	\$ 44,017
	=====
Accounts payable	\$385,168
Accrued liabilities	22,930
	-----
Total liabilities (all current)(1)	\$408,098
	=====

(1) Liabilities above do not include payables to the Company of approximately \$176,075 at September 30, 2003.

NCT's revenues for the three months ended September 30, 2003 and 2002 reported in discontinued operations were \$692 and \$59,174, respectively. NCT incurred losses in the three months ended September 30, 2003 and 2002, of \$1,920 and \$232,714, respectively. NCT did not incur any income taxes during these periods.

### 3. Note receivable:

During the three months ended September 30, 2002, the Company received \$95,862 on an existing 5% unsecured loan receivable.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
Three Months Ended September 30, 2003 and September 30, 2002

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(Unaudited)

### 4. Notes Payable - Related Parties:

In June 2003, an officer/director of the Company loaned \$10,000 to the Company in exchange for an unsecured 7% promissory note due in December 2003. In September 2003, the same officer/director loaned the Company an additional \$30,000 in exchange for an unsecured, 7% promissory note, due in September 2004.

In September 2003, Intercell International Corporation, an affiliate of the Company, loaned the Company \$35,000 in exchange for an unsecured, 7% promissory note due in September 2004. In November 2003, Intercell International Corporation loaned the Company \$100,000 in exchange for a 7% promissory note due in November 2004. This promissory note is collateralized by an assignment of a 51% interest in the proceeds, if any, the Company may receive in connection with the Financing Agreement litigation (Note 7).

### 5. Investment in Joint Venture Interest:

On September 15, 2003, the Company entered into a joint venture agreement with Scimaxx, LLC, an entity related to the Company in that a member of Scimaxx, LLC is an officer/director of the Company. The name of the joint venture is Scimaxx Solutions, LLC. 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 the contribution of NCOS fixed assets with a carrying value of approximately \$132,000 at September 15, 2003. 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 \$5,000 has been received as of September 30, 2003. 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.

Scimaxx Solutions is considered to be a VIE based on criteria established under FIN 46. The Company has consolidated this VIE based on a determination that the Company is the primary beneficiary. Minority interest at September 30, 2003, represents Scimaxx, LLC's proportionate share of the joint venture equity.

Through the three months ended September 30, 2003, Scimaxx Solutions recognized a loss of \$3,794.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
Three Months Ended September 30, 2003 and September 30, 2002  
(Unaudited)

### 6. Shareholders' Equity:

During the three months ended September 30, 2003, the Company sold 769,231 shares of restricted common stock for cash of \$100,000. The Company also issued 200,000 shares of restricted common stock in satisfaction of a \$3,635 payable.

During the three months ended September 30, 2003, warrants to purchase 70,000 shares of common stock at an exercise price of \$2.81 per share expired.

During the three months ended September 30, 2002, the Company granted stock

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options to purchase 85,000 shares of common stock at exercise prices of \$0.58 to \$0.97 per share to employees of the Company.

### 7. Commitments and Contingencies:

#### Financial Advisory and Placement Agent Agreement:

Effective January 10, 2003, the Company entered into a 12-month financial advisory and exclusive placement agent agreement with a third party (the "Placement Agent"). Under the terms of the agreement, the Placement Agent is to act as 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. During the term of the agreement, the Company is prohibited from directly or indirectly offering securities, except in connection with (a) stock-based compensation issued to employees or other participants, (b) securities sold prior to February 15, 2003, and (c) securities sold in connection with bridge financing, as defined in the agreement.

Compensation to the Placement Agent consists of a retainer fee (deferred consulting costs) valued at approximately \$230,400, which consists of a warrant to purchase up to 450,000 shares of the Company's common stock. The cost of the warrant is being amortized over a twelve-month period from the date of issuance of the warrant. During the three months ended September 30, 2003, \$58,073 was expensed in connection with the warrant. Compensation also includes a \$10,000 monthly advisory fee, payable in cash, beginning in June 2003. In addition, the Placement Agent is to receive a 6% fee based on the proceeds raised from a successful offering, payable in cash, along with warrants to purchase shares of the Company's common stock in an amount equal to 10% of the number of common shares issued in an offering.

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
Three Months Ended September 30, 2003 and September 30, 2002  
(Unaudited)

#### Financing Agreement Suit:

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

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

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the reset provisions of the Purchase Agreement due on the second reset date and approximately 4,545,303 shares due in connection with the third reset date. Harvest Court, LLC is seeking the delivery of such shares or damages in the alternative. In August 2001, the Supreme Court of the State of New York, County of New York issued a preliminary injunction ordering the Company to reserve and not transfer the shares allegedly due to Harvest Court. The Company has filed counterclaims seeking various forms of relief against Harvest Court, LLC.

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

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NANOPIERCE TECHNOLOGIES, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
Three Months Ended September 30, 2003 and September 30, 2002  
(Unaudited)

### 8. Foreign and Domestic Operations:

The Company's revenues from continuing operations during the three-month period ended September 30, 2003 were generated solely in Germany. There were no revenues from continuing operations during the three-month period ended September 20, 2002. There was no significant amount of transfers between geographic areas. Long-lived assets at September 30, 2003, by geographic area are as follows:

United States	\$ 855,458
Germany	350,958
	-----
Total	\$1,206,416
	=====

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The independent auditors' report on the Company's financial statements as of June 30, 2003, and for each of the years in the two-year period then ended, includes a "going concern" explanatory paragraph, that describes substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to the factors prompting the explanatory paragraph are discussed below and also in Note 1 to the quarterly Financial Statements.

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### RESULTS OF OPERATIONS

On April 1, 2003, NCT filed insolvency with the Courts of Munich, Germany. The insolvency filing was necessary, in the view of the Company, in order to comply with specific German legal requirements. NCT is presented as discontinued operations in the Company's consolidated financial statements. During the three months ended September 30, 2003, NCT had losses of \$1,920 compared to losses of \$232,714 during the three months ended September 30, 2002. In September 2003, the court rejected the application for insolvency and the Company is now under self-liquidation in accordance with German law.

The Company recognized \$25,051 in revenues from continuing operations during the three months ended September 30, 2003. The \$25,051 in revenues was generated from the sale of inlay components to customers by ExypnoTech. The Company expects to continue to generate revenues in the future from the preparation of inlays for those customers for which it has non-disclosure agreements and cooperation agreements and from the sale of inlays through ExypnoTech.

The Company recognized \$3,418 in interest income during the three months ended September 30, 2003 compared to \$10,288 during the three months ended September 30, 2002. The decrease of \$6,870 is due primarily to the use of cash to support operations.

Total operating expenses from continuing operations during the three months ended September 30, 2003 were \$484,910 compared to \$796,299 for the three months ended September 30, 2002. The decrease of \$311,389 is primarily attributable to a decrease in general and administrative expenses, as described below.

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General and administrative expenses during the three months ended September 30, 2003 were \$414,075 compared to \$634,173 for the three months ended September 30, 2002. The decrease of \$220,098 is primarily attributable to a \$75,990 decrease in legal expenses and a \$221,993 decrease in payroll expenses, offset by an increase of \$52,173 in consulting expenses. Selling and marketing expenses during the three months ended September 30, 2003 were \$24,180 compared to \$66,953 during the three months ended September 30, 2002. The decrease of \$42,773 was due to a decrease in marketing activities throughout the Company. Research and development expenses during the three months ended September 30, 2003 were \$46,655 compared to \$95,173 for the three months ended September 30, 2002. The decrease of \$48,518 was due to an decrease in activities at the Company's subsidiaries in connection with the further development and expansion of the NCS(TM) technology.

During the three months ended September 30, 2003, the Company recognized a net loss of \$454,864 compared to a net loss of \$1,018,725 during the three months ended September 30, 2002. The decrease of \$563,861 is primarily attributable to the decrease of \$311,389 in operating expenses and a decrease in the loss from discontinued operations of \$230,794.

### LIQUIDITY AND FINANCIAL CONDITION

The Company's current operations are not generating positive cash flows. During the three months ended September 30, 2003, the Company sold 769,231 shares of common stock for \$100,000. The funds were raised to support operations.

As a result of continued operational losses and working capital deficiencies and in order to comply with specific German legal requirements, in



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April 2003, the Company's wholly owned subsidiary NanoPierce Card Technologies, GmbH (NCT) filed for insolvency with the Courts of Munich, Germany. NCT has been placed in receivership while a plan of liquidation is developed.

During the fiscal year ended June 30, 2003, the Company entered into a 12-month financial advisory and exclusive placement agent agreement with a third party (the "Placement Agent"). Under the terms of the agreement, the Placement Agent is to act as the financial advisor to the Company and as its exclusive placement agent for a private placement of equity securities during the twelve-month term of the agreement. In addition, the Company is exploring other financing opportunities to support continuing operations.

During the three months ended September 30, 2003, an officer and director of the Company loaned \$30,000 to the Company in exchange for an unsecured 7% promissory note due in September 2004. During the fiscal year ended June 30, 2003, the same officer and director of the Company loaned \$10,000 to the Company in exchange for an unsecured 7% promissory note due in December 2003. At September 30, 2003, the note balances were \$40,000.

During the three months ended September 30, 2003, Intercell International Corporation, an affiliate of the Company, loaned the Company \$35,000 in exchange for an unsecured 7% promissory note due in September 2004. At September 30, 2003, the note balance was \$35,000.

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In November 2003, Intercell International Corporation loaned the Company \$100,000 in exchange for a 7% promissory note due in November 2004. The promissory note is collateralized by an assignment of a 51% interest in and to the proceeds, if any, that the Company may receive as a result of the Financing Agreement litigation.

During the three months ended September, 2003, the Company expanded the scope of its patent and trademark applications. The intellectual property is being amortized using the straight-line method over ten years. On September 30, 2003, the Company has net patent and trademark applications costs of \$453,148, compared to \$255,380 on September 30, 2002. The increase of \$195,768 was primarily due to the Company's efforts to increase patent and trademark protection overseas.

### PLAN OF OPERATIONS

In September 2003, the Company formed a joint venture with Scimaxx, LLC. The joint venture, Scimaxx Solutions, LLC is to market 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 is to be provided by Scimaxx, LLC.

On September 22, 2003, the Company signed a letter of intent with Meshed Systems, GmbH ("Meshed Systems"), in which Meshed Systems was to make a 100,000 Euro investment in ExypnoTech for a 51% equity interest. The letter of intent provided for the transaction to close on November 7, 2003. This transaction did not close on November 7, 2003, and the letter of intent has been cancelled.

The Company is continuing to look for additional financing through marketing of its NCS(TM) technology through 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

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substantial additional capital and resources to bring its NCS technology 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.

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### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

##### Financing Agreement

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

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

The Company is also involved in other various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of the matter discussed above and other matters will not have a material adverse impact either individually or in the aggregate on either results of operations, financial position or cash flows of the Company.

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### ITEM 2. CHANGES IN SECURITIES

The Company made the following unregistered sales of its securities from July 1, 2003 to September 30, 2003.

DATE OF SALE	TITLE OF SECURITIES	NO. OF SHARES	CONSIDERATION	PURCHASER
7/21/03	Common Stock	769,231	Financing	Neptune Investment Group
7/22/03	Common Stock	200,000	Payment in satisfaction of payable	Thompson & Lowe, PC

#### Exemption From Registration Claimed

All of the sales by the Company of its unregistered securities were made by the Company in reliance upon Section 4(2) of the Act. All of the individuals and/or entities listed above that purchased the unregistered securities were all known to the Company and its management, through pre-existing business relationships, as long standing business associates, friends, and employees. All purchasers were provided access to all material information, which they requested, and all information necessary to verify such information and were afforded access to management of the Company in connection with their purchases. All purchasers of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to the Company. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

### ITEM 4. CONTROLS AND PROCEDURES

A review and evaluation was performed by the Company's management, including the Company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing of this quarterly report. Based on that review and evaluation, the CEO and CFO have concluded that the Company's current disclosure controls and procedures, as designed and implemented, were effective. There have been no significant changes in the Company's internal controls subsequent to the date of their evaluation. There were no significant material weaknesses identified in the course of such review and evaluation and, therefore, no corrective measures were taken by the Company.

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### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) EXHIBITS

Exhibit 11 Computation of Net Loss Per Share

Exhibit 31 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act

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Exhibit 32 Certifications pursuant to Section 906 of the  
Sarbanes-Oxley Act

(b) FORM 8-K

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NANOPIERCE TECHNOLOGIES, INC.  
(REGISTRANT)

Date: November 14, 2003

/s/ Paul H. Metzinger

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Paul H. Metzinger, President & CEO

Date: November 14, 2003

/s/ Kristi J. Kampmann

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Kristi J. Kampmann,  
Chief Financial Officer

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