NOCOPI TECHNOLOGIES INC/MD/
Form 10-Q
August 10, 2017

**United States**

**Securities and Exchange Commission**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from ________________ to ______________

Commission File Number: 000-20333

**NOCOPI TECHNOLOGIES, INC.**

*(Exact name of registrant as specified in its charter)*

| **Maryland** | **87-0406496** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |

**480 Shoemaker Road, Suite 104, King of Prussia, PA 19406**

*(Address of principal executive offices) (Zip Code)*

**(610) 834-9600**

*(Registrant s telephone number, including area code)*

Indicate by check mark whether the registrant (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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ | Smaller reporting company þ |
| *(Do not check if a smaller reporting company)* | Emerging growth company ¨ |

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 58,599,016 shares of common stock, par value $0.01, as of August 1, 2017

**NOCOPI TECHNOLOGIES, INC.**

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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

***Nocopi Technologies, Inc.***

***Statements of Operations****

***(unaudited)***

| | Three Months ended June 30 | | Six Months ended June 30 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Revenues** | | | | |
| Licenses, royalties and fees | $ 131,900 | $ 98,700 | $ 290,700 | $ 211,500 |
| Product and other sales | 227,700 | 104,700 | 410,300 | 274,700 |
| | 359,600 | 203,400 | 701,000 | 486,200 |
| **Cost of revenues** | | | | |
| Licenses, royalties and fees | 26,800 | 16,900 | 47,800 | 36,500 |
| Product and other sales | 94,100 | 49,200 | 166,300 | 118,300 |
| | 120,900 | 66,100 | 214,100 | 154,800 |
| Gross profit | 238,700 | 137,300 | 486,900 | 331,400 |
| **Operating expenses** | | | | |
| Research and development | 36,500 | 32,400 | 72,900 | 70,000 |
| Sales and marketing | 59,800 | 47,400 | 120,700 | 103,900 |
| General and administrative | 68,900 | 66,800 | 159,600 | 154,300 |
| | 165,200 | 146,600 | 353,200 | 328,200 |
| Net income (loss) from operations | 73,500 | (9,300) | 133,700 | 3,200 |
| **Other income (expenses)** | | | | |
| | (3,100) | (3,400) | (19,300) | (6,800) |

| | | | | |
|---|---|---|---|---|
| Interest expense, bank charges and accretion of interest | (3,100) | (3,400) | (19,300) | (6,800) |
| Net income (loss) | $ 70,400 | $ (12,700) | $ 114,400 | $ (3,600) |
| Basic and diluted net income (loss) per common share | $ .00 | $ (.00) | $ .00 | $ (.00) |
| Weighted average common shares outstanding | | | | |
| Basic | 58,599,016 | 58,599,016 | 58,599,016 | 58,599,016 |
| Diluted | 58,969,160 | 58,599,016 | 58,889,178 | 58,599,016 |

*See accompanying notes to these financial statements.

***Nocopi Technologies, Inc.***

***Balance Sheets****

| | June 30 2017 (unaudited) | December 31 2016 (audited) |
|---|---|---|
| ***Assets*** | | |
| **Current assets** | | |
| Cash | $ 179,500 | $ 199,100 |
| Accounts receivable less $5,000 allowance for doubtful accounts | 294,000 | 243,400 |
| Inventory | 86,400 | 70,900 |
| Prepaid and other | 30,000 | 29,600 |
| Total current assets | 589,900 | 543,000 |
| | | |
| **Fixed assets** | | |
| Leasehold improvements | 19,700 | 19,700 |
| Furniture, fixtures and equipment | 183,200 | 178,300 |
| | 202,900 | 198,000 |
| Less: accumulated depreciation and amortization | 186,500 | 183,000 |
| | 16,400 | 15,000 |
| Total assets | $ 606,300 | $ 558,000 |
| | | |
| ***Liabilities and Stockholders' Deficiency*** | | |
| | | |
| **Current liabilities** | | |
| Demand loans | $ 10,000 | $ 10,000 |
| Convertible debentures | 95,000 | 128,300 |
| Accounts payable | 30,100 | 33,100 |
| Accrued expenses | 393,900 | 459,900 |
| Deferred revenue | 96,000 | 106,300 |
| Total current liabilities | 625,000 | 737,600 |
| | | |
| Convertible debentures | 33,300 | |
| | | |
| **Stockholders' deficiency** | | |
| Common stock, $0.01 par value | | |
| Authorized 75,000,000 shares | | |
| Issued and outstanding 58,599,016 shares | 586,000 | 586,000 |
| Paid-in capital | 12,439,800 | 12,426,600 |
| Accumulated deficit | (13,077,800) | (13,192,200) |
| Total stockholders' deficiency | (52,000) | (179,600) |
| Total liabilities and stockholders' deficiency | $ 606,300 | $ 558,000 |

*See accompanying notes to these financial statements.

***Nocopi Technologies, Inc.***

***Statements of Cash Flows****

***(unaudited)***

| | Six Months ended June 30 2017 | | Six Months ended June 30 2016 | |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net income (loss) | $ | 114,400 | $ | (3,600) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | | | | |
| Depreciation and amortization | | 3,500 | | 3,700 |
| Accretion of interest convertible debentures | | 13,200 | | 500 |
| | | 131,100 | | 600 |
| (Increase) decrease in assets | | | | |
| Accounts receivable | | (50,600) | | 85,100 |
| Inventory | | (15,500) | | (26,300) |
| Prepaid and other | | (400) | | (12,500) |
| Increase (decrease) in liabilities | | | | |
| Accounts payable and accrued expenses | | (69,000) | | 39,900 |
| Deferred revenue | | (10,300) | | 43,400 |
| | | (145,800) | | 129,600 |
| Net cash provided by (used in) operating activities | | (14,700) | | 130,200 |
| **Investment Activities** | | | | |
| Additions to fixed assets | | (4,900) | | |
| Net cash used in investing activities | | (4,900) | | |
| **Financing Activities** | | | | |
| Repayment of demand loans | | | | (9,000) |
| Net cash used in financing activities | | | | (9,000) |
| Increase (decrease) in cash | | (19,600) | | 121,200 |
| Cash at beginning of year | | 199,100 | | 11,400 |
| Cash at end of period | $ | 179,500 | $ | 132,600 |

*See accompanying notes to these financial statements.

**NOCOPI TECHNOLOGIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Note 1. Financial Statements**

The accompanying unaudited condensed financial statements have been prepared by Nocopi Technologies, Inc. (the Company ). These statements include all adjustments (consisting only of normal recurring adjustments) which management believes necessary for a fair presentation of the statements and have been prepared on a consistent basis using the accounting policies described in the summary of Accounting Policies included in the Company's 2016 Annual Report on Form 10-K. Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the accompanying disclosures are adequate to make the information presented not misleading. The Notes to Financial Statements included in the 2016 Annual Report on Form 10-K should be read in conjunction with the accompanying interim financial statements. The interim operating results for the three months and six months ended June 30, 2017 may not be necessarily indicative of the operating results expected for the full year.

The Company follows Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 220 in reporting comprehensive income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Since the Company has no items of other comprehensive income, comprehensive income (loss) is equal to net income (loss).

**Note 2. Going Concern**

Since its inception, the Company has incurred significant losses and, as of June 30, 2017, had accumulated losses of $13,077,800. For the six months ended June 30, 2017, the Company had net income from operations of $133,700. At June 30, 2017, the Company had negative working capital of $35,100 and a stockholders deficiency of $52,000. For the year ended December 31, 2016, the Company s net income from operations was $271,800. The Company, which is substantially dependent on its licensees to generate licensing revenues, may incur operating losses and experience negative cash flow in the future. Sustaining profitability and positive cash flow depends on the Company s ability to maintain the increases in revenues and gross profits that it realized in 2016 from its traditional business. There can be no assurances that the Company will be able to generate sufficient revenues and gross profits to sustain profitability and positive cash flow in the future.

Receipt of funds in earlier periods from investors and from demand loan holders have allowed the Company to remain in operation through the current date. Management of the Company believes that it may need additional capital in the future both to fund investments that may be needed to maintain operating revenues at levels that will sustain its operations and maintain the levels of operating income and positive cash flow achieved during 2016. There can be no assurances that the Company will be successful in obtaining sufficient additional capital, or if it does, that the additional capital will enable the Company to impact its revenues so as to have a material positive effect on the Company s operations and cash flow. The Company believes that without additional capital, whether in the form of debt, equity or both, it may be not be able to satisfy its debts as they become due.

The above mentioned factors raise substantial doubt about the Company s ability to continue as a going concern for a period of one year from the date the financial statements are issued. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Note 3. Stock Based Compensation**

The Company follows FASB ASC 718, *Compensation Stock Compensation*, and uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award. At June 30, 2017, the Company did not have an active stock option plan. There was no unrecognized portion of expense related to stock option grants at June 30, 2017.

## Note 4. Demand Loans

At June 30, 2017, the Company had a $10,000 unsecured loan from one individual outstanding. The loan bears interest at 8%. In late July 2017, the Company repaid this remaining $10,000 unsecured loan. During the first six months of 2016, the Company repaid $9,000 of the unsecured loans.

## Note 5. Convertible Debentures

At June 30, 2017, the Company had convertible debentures totaling $128,300 outstanding, of which $95,000 are due during the third quarter of 2017 and $33,300 are due during the third quarter of 2018. The convertible debentures bear interest at 7%. At the option of the lender, the debentures and accrued interest are convertible in whole or part into common stock of the Company at $0.025 per share. During the first quarter of 2017, the Company s Board of Directors approved and the holders of $33,300 of convertible debentures that had matured during the third quarter of 2016, one of which is held by a Director of the Company, accepted an offer of extension whereby the maturity dates of the convertible debentures are extended for two years and the conversion rate of the debentures and accrued interest into Common Stock of the Company is reduced from $0.05 to $0.025. In accordance with FASB ASC 470, this modification of the convertible debentures was recorded as a debt discount to the notes payable of approximately $13,200 with an offsetting credit to additional-paid in capital. In the three months ended March 31, 2017, the entire $13,200 was accreted through interest expense.

The Company in 2012 and 2013 also granted warrants to purchase 691,365 shares of the Company s common stock at $0.02 per share to the holders of the debentures. The warrants are exercisable two years after issuance and expire seven years after issuance. The fair value of the warrants was determined using the Black-Scholes pricing model. The relative fair value of the warrants was recorded as a discount to the notes payable with an offsetting credit to additional paid-in capital since the Company determined that the warrants were an equity instrument in accordance with FASB ASC 815. The debt discount related to the warrant issuances was accreted through interest expense over the original term of the notes payable. For the three months ended June 30, 2017 and June 30, 2016, $0 and approximately $300, respectively, was accreted through interest expense. For the six months ended June 30, 2017 and June 30, 2016, $0 and approximately $500, respectively, was accreted through interest expense.

The following table summarizes the Company s warrant position at June 30, 2017 and December 31, 2016:

| | Number of Shares | Exercise Price | | Weighted Average Exercise Price |
|---|---|---|---|---|
| Outstanding warrants - December 31, 2016 | 721,365 | $0.01 to $0.07 | $ | 0.021 |
| Outstanding warrants - June 30, 2017 | 721,365 | $0.01 to $0.07 | $ | 0.021 |
| Weighted average remaining contractual life (years) | 3.20 | | | |
| Exercisable warrants - June 30, 2017 | 721,365 | $0.01 to $0.07 | $ | 0.021 |
| Weighted average remaining contractual life (years) | 3.20 | | | |

**NOCOPI TECHNOLOGIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Note 6. Other Income (Expenses)**

Other income (expenses) in the three months and six months ended June 30, 2017 and June 30, 2016 includes interest on unsecured loans from two individuals and on convertible debentures held by nine investors. Also included in other income (expenses) is accretion of debt discounts in the six months ended June 30, 2017 related to the extension of the maturity dates of $33,300 of convertible debentures.

**Note 7. Income Taxes**

There is no provision for income taxes for the three months and six months ended June 30, 2017 due to the availability of net operating loss carryforwards. There is no income tax benefit for the losses for the three months and six months ended June 30, 2016 because the Company has determined that the realization of the net deferred tax asset is not assured. The Company has created a valuation allowance for the entire amount of such benefits.

There was no change in unrecognized tax benefits during the period ended June 30, 2017 and there was no accrual for uncertain tax positions as of June 30, 2017.

Tax years from 2013 through 2016 remain subject to examination by U.S. federal and state jurisdictions.

**Note 8. Related Party Transactions**

During the six months ended June 30, 2017, and June 30, 2016 the Company paid $116,200 and $15,000, respectively, to Michael A. Feinstein, M.D., the Company s Chairman of the Board and Chief Executive Officer, representing a portion of previously deferred salary owed to him under an employment agreement with the Company. During each of the six month periods ended June 30, 2017 and June 30, 2016, Dr. Feinstein deferred $42,500 of salary. At June 30, 2017, Dr. Feinstein was owed approximately $227,500 of salary deferred by him. Since June 30, 2017, Dr. Feinstein has been paid approximately $11,800 of salary previously deferred by him. There is no interest payable on the deferred salary.

**Note 9. Earnings (Loss) per Share**

In accordance with FASB ASC 260, *Earnings per Share*, basic earnings (loss) per common share is computed using net earnings (loss) divided by the weighted average number of common shares outstanding for the periods presented. The computation of diluted earnings per common share involves the assumption that outstanding common shares are increased by shares issuable upon exercise of those warrants for which the market price exceeds the exercise price. The number of shares issuable upon the exercise of such warrants is decreased by shares that could have been purchased by the Company with related proceeds. For the three months and six months ended June 30, 2017, the number of incremental common shares resulting from the assumed conversion of warrants was 370,144 and 290,162, respectively. Because the Company reported a net loss for the three months and six months ended June 30, 2016, common stock equivalents, consisting of warrants, were anti-dilutive.

**Note 10. Major Customer and Geographic Information**

The Company s revenues, expressed as a percentage of total revenues, from non-affiliated customers that equaled 10% or more of the Company s total revenues were:

| | **Three Months ended June 30** | | **Six Months ended June 30** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Customer A | 47% | 29% | 40% | 12% |
| Customer B | 20% | 24% | 24% | 23% |
| Customer C | 12% | 17% | 12% | 37% |

**NOCOPI TECHNOLOGIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(UNAUDITED)**

The Company s non-affiliate customers whose individual balances amounted to more than 10% of the Company s net accounts receivable, expressed as a percentage of net accounts receivable, were:

| | June 30 2017 | December 31 2016 |
|---|---|---|
| Customer A | 44% | 26% |
| Customer B | 25% | 47% |
| Customer C | 14% | 5% |

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company also maintains allowances for potential credit losses. The loss of a major customer could have a material adverse effect on the Company s business operations and financial condition.

The Company s revenues by geographic region are as follows:

| | Three Months ended June 30 | | Six Months ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| North America | $ 136,700 | $ 100,400 | $ 311,800 | $ 226,400 |
| Europe | 200 | | 200 | |
| Asia | 215,300 | 95,600 | 374,200 | 245,000 |
| Australia | 7,400 | 7,400 | 14,800 | 14,800 |
| | $ 359,600 | $ 203,400 | $ 701,000 | $ 486,200 |

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Information**

*This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act ), regarding, among other things, anticipated improvements in operations, the Company s plans, earnings, cash flow and expense estimates, strategies and prospects, both business and financial. All statements other than statements of current or historical fact contained in this report are forward-looking statements. The words believe, expect, anticipate, should, plan, wi estimate, potential, continue and similar expressions, as they relate to the Company, are intended to identify, v possible, forward-looking statements.*

The Company has based these forward-looking statements largely on its current expectations and projections about future events, financial trends, market opportunities, competition, and the adequacy of the Company s available cash resources, which the Company believes may affect its financial condition, results of operations, business strategy and financial needs. This Form 10-Q also contains forward-looking statements attributed to third parties. All such statements can be affected by inaccurate assumptions, including, without limitation, with respect to risks, uncertainties, anticipated operating efficiencies, new business prospects and the rate of expense increases. In light of these risks, uncertainties and assumptions, the forward-looking statements in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. For these reasons, and because of the uncertainty relating to the current financial conditions in today s economic environment and the potential reduction in demand for the Company s products, you should not consider this information to be a guarantee by the Company or any other person that its objectives and plans will be achieved. When you consider these forward-looking statements, you should keep in mind the Risk Factors and other cautionary statements set forth in this Item 2 and elsewhere in this Form 10-Q. The Company s forward-looking statements speak only as of the date made. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Financial Statements and related notes included elsewhere in this report as well as with the Company s audited Financial Statements and Notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission (the SEC ) on March 30, 2017 and keeping in mind this cautionary statement regarding forward-looking information.

**Results of Operations**

The Company s revenues are derived from (i) royalties paid by licensees of the Company s technologies; (ii) fees for the provision of technical services to licensees; and (iii) the direct sale of (a) products incorporating the Company s technologies, such as inks, security paper and pressure sensitive labels, and (b) equipment used to support the application of the Company s technologies, such as ink-jet printing systems. Royalties consist of guaranteed minimum royalties payable by the Company s licensees and/or additional royalties, which typically vary with the licensee s sales or production of products incorporating the licensed technology. Technical services, in the form of on-site or telephone consultations by members of the Company s technical staff, may be offered to licensees of the Company s technologies. The consulting fees are billed at agreed upon per diem or hourly rates at the time the services are rendered. Service fees and sales revenues vary directly with the number of units of service or product provided.

The Company recognizes revenue on its lines of business as follows:

a)

License fees and royalties are recognized when the license term begins. Upon inception of the license term, revenue is recognized in a manner consistent with the nature of the transaction and the earnings process, which generally is ratably over the license term;

b)

Product sales are recognized (i) upon shipment of products; (ii) when the price is fixed or determinable; and (iii) when collectability is reasonably assured; and

c)

Fees for technical services are recognized when (i) the service has been rendered; (ii) an arrangement exists; (iii) the price is fixed or determinable based upon a per diem or hourly rate; and (iv) collectability is reasonably assured.

The Company believes that, as fixed cost reductions beyond those it has achieved in recent years may not be achievable, its operating results are substantially dependent on revenue levels. Because revenues derived from licenses and royalties carry a much higher gross profit margin than other revenues, operating results are also substantially affected by changes in revenue mix.

Both the absolute amounts of the Company s revenues and the mix among the various sources of revenue are subject to substantial fluctuation. The Company has a relatively small number of substantial customers rather than a large number of small customers. Accordingly, changes in the revenue received from a significant customer can have a substantial effect on the Company s total revenue and on its revenue mix and overall financial performance. Such changes may result from a customer s product development delays, engineering changes, changes in product marketing strategies and the like. In addition, certain customers have, from time to time, sought to renegotiate certain provisions of their license agreements and, when the Company agrees to revise terms, revenues from the customer may be affected. The addition of a substantial new customer or the loss of a substantial existing customer may also have a substantial effect on the Company s total revenue, revenue mix and operating results.

Revenues for the second quarter of 2017 were $359,600 compared to $203,400 in the second quarter of 2016, an increase of $156,200, or approximately 77%. Licenses, royalties and fees increased by $33,200, or approximately 34%, to $131,900 in the second quarter of 2017 from $98,700 in the second quarter of 2016. The increase in licenses, royalties and fees is due primarily to higher licensing revenue received from four licensees including one licensee added in the second half of 2016. There can be no assurances that the marketing and product development activities of the Company s licensees or other businesses in the entertainment and toy products market will produce a significant increase in revenues for the Company, nor can the timing of any potential revenue increases be predicted, particularly given the uncertain economic conditions being experienced worldwide.

Product and other sales increased by $123,000, or approximately 117%, to $227,700 in the second quarter of 2017 from $104,700 in the second quarter of 2016. Sales of ink increased in the second quarter of 2017 compared to the second quarter of 2016 due primarily to higher ink shipments to the third party authorized printers used by two of the Company s major licensees in the entertainment and toy products market offset in part by lower ink shipments to the Company s licensees in the retail receipt and document fraud market. In the second quarter of 2017, the Company derived revenues of approximately $305,200 from its licensees and their authorized printers in the entertainment and toy products market compared to revenues of approximately $164,300 in the second quarter of 2016.

For the first six months of 2017, revenues were $701,000, representing an increase of $214,800, or approximately 44%, from revenues of $486,200 in the first six months of 2016. Licenses, royalties and fees increased by $79,200, or approximately 37%, to $290,700 in the first six months of 2017 from $211,500 in the first six months of 2016. As in the second quarter of 2017, the increase in licenses, royalties and fees is due primarily to higher licensing revenue received from four licensees including one licensee added in the second half of 2016.

Product and other sales increased by $135,600, or approximately 49%, to $410,300 in the first six months of 2017 from $274,700 in the first six months of 2016. Sales of ink increased in the first quarter of 2017 compared to the first quarter of 2016 due primarily to higher ink shipments to the third party authorized printers used by two of the Company s major licensees in the entertainment and toy products market offset in part by lower ink shipments to the Company s licensees in the retail receipt and document fraud market. The Company derived revenues of approximately $587,700 from licensees and their authorized printers in the entertainment and toy products market in the first six months of 2017 compared to revenues of approximately $393,700 in the first six months of 2016.

The Company s gross profit increased to $238,700 in the second quarter of 2017, or approximately 66% of revenues, from $137,300 in the second quarter of 2016 or approximately 68% of revenues. Licenses, royalties and fees have historically carried a higher gross profit than product and other sales. Such other sales generally consist of supplies or other manufactured products which incorporate the Company s technologies or equipment used to support the application of its technologies. These items (except for inks which are manufactured by the Company) are generally purchased from third-party vendors and resold to the end-user or licensee and carry a lower gross profit than licenses, royalties and fees. The higher gross profit in the second quarter of 2017 compared to the second quarter of 2016 results primarily from both higher licenses, royalties and fees and higher gross revenues from product and other sales in the second quarter of 2017 compared to the second quarter of 2016.

For the first six months of 2017, gross profit was $486,900, or approximately 69% of revenues, compared to $331,400, or approximately 68% of revenues, in the first six months of 2016. As in the second quarter of 2017, the higher gross profit in the first six months of 2017 compared to the first six months of 2016 results primarily from both higher licenses, royalties and fees and higher gross revenues from product and other sales in the first six months of 2017 compared to the first six months of 2016.

As the variable component of cost of revenues related to licenses, royalties and fees is a low percentage of these revenues and the fixed component is not substantial, period to period changes in revenues from licenses, royalties and fees can significantly affect both the gross profit from licenses, royalties and fees as well as overall gross profit. The gross profit from licenses, royalties and fees decreased to approximately 80% in the second quarter of 2017 compared to approximately 83% in the second quarter of 2016. The gross profit from licenses, royalties and fees increased to approximately 84% of revenues from licenses, royalties and fees in the first six months of 2017 from approximately 83% in the first six months of 2016.

The gross profit, expressed as a percentage of revenues, of product and other sales is dependent on both the overall sales volumes of product and other sales and on the mix of the specific goods produced and/or sold. The gross profit from product and other sales increased to approximately 59% of revenues in the second quarter of 2017 compared to approximately 53% of revenues in the second quarter of 2016. This increase was due to higher sales volume of product and other sales and higher margins on certain products due to a favorable mix of products sold and raw materials prices. For the first six months of 2017, the gross profit, expressed as a percentage of revenues, increased to approximately 59% of revenues from product and other sales compared to approximately 57% of revenues from product and other sales in the first six months of 2016.

Research and development expenses of $36,500 and $72,900 in the second quarter and first six months of 2017, respectively, were comparable to $32,400 and $70,000 in the second quarter and first six months of 2016, respectively.

Sales and marketing expenses increased to $59,800 in the second quarter of 2017 from $47,400 in the second quarter of 2016 and to $120,700 in the first six months of 2017 from $103,900 in the first six months of 2016. This increase is due primarily to higher commission expense on the higher level of sales in the second quarter and first six months of 2017 compared to the second quarter and first six months of 2016.

General and administrative expenses of $68,900 in the second quarter of 2016 were comparable to $66,800 in the second quarter of 2016. In the first six months of 2017, general and administrative expenses increased to $159,600 from $154,300 in the first six months of 2016 due primarily to higher employment and insurance expenses offset in part by lower legal expenses in the first six months of 2017 compared to the first six months of 2016.

Other income (expenses) in the second quarter and first six months of 2017 and 2016 included interest on unsecured loans from two individuals and on convertible debentures held by nine investors. Also included in other income (expenses) is accretion of debt discounts in the first six months of 2017 related to the extension of the maturity dates of $33,300 of convertible debentures. Other income (expenses) decreased to $3,100 in the second quarter of 2017 from $3,400 in the second quarter of 2016. Other income (expenses) increased to $19,300 in the first six months ended June 30, 2017 from $6,800 in the first six months 2016. This increase is due primarily to accretion of debt discounts in the first six months of 2017 related to the extension of the maturity dates of $33,300 of convertible debentures in the first quarter of 2017.

The net income of $70,400 in the second quarter of 2017 compared to a net loss of $12,700 in the second quarter of 2016 resulted primarily from a higher gross profit on a higher level of revenues in the second quarter of 2017 compared to the second quarter of 2016 offset in part by higher overhead expenses in the second quarter of 2017 compared to the second quarter of 2016. The net income of $114,400 in the first six months 2017 compared to the net loss of $3,600 in the first six months of 2016 resulted primarily from a higher gross profit on a higher level of revenues in the first six months of 2017 compared to the first six months of 2016 offset in part by higher overhead expenses and accretion of debt discounts in the first six months of 2017 compared to the first six months of 2016.

**Plan of Operation, Liquidity and Capital Resources**

During the first six months of 2017, the Company s cash decreased to $179,500 at June 30, 2017 from $199,100 at December 31, 2016. During the first six months of 2017, the Company used $14,700 to fund its operating activities and $4,900 for capital equipment purchases.

During the first six months of 2017, the Company s revenues increased approximately 44% primarily as a result of higher sales of ink to the authorized printers of four of the Company s licensees in the entertainment and toy products market and from higher licensing and royalty revenues from new and existing licensees. The Company s first six months of 2017 total overhead expenses increased compared to the 2016 first six months total overhead expenses and the Company s interest expense increased related to accretion of interest in the first six months of 2017 compared to the first six months of 2016. As a result of these factors, the Company recorded a net profit in the first six months of 2017 compared to a net loss in the first six months of 2016. The Company had negative operating cash flow of $14,700 during the first six months of 2017. At June 30, 2017, the Company had negative working capital of $35,100 and a stockholders deficiency of $52,000. For the full year of 2016, the Company had net income of $258,500 and had positive operating cash flow of $202,600. At December 31, 2016, the Company had negative working capital of $194,600 and a $179,600 stockholders deficiency.

From January 1, 2015 through July 31, 2017, the Company repaid the entire $63,000 of short-term loans that had been outstanding at January 1, 2015 and, in 2015, repaid $10,000 of convertible debentures and extended the maturity dates of $95,000 of convertible debentures from 2015 to 2017. In the first quarter of 2017, the Company extended the maturity dates of $33,300 of convertible debentures form 2016 to 2018. These borrowings allowed the Company to remain in operation through late 2016 when the Company s cash flow increased significantly. There can be no assurances that the Company will be able to secure sufficient additional funding, if needed, through investments or borrowings. The Company believes that without additional investment, it may be forced to cease operations at an undetermined date in the future if it is unable to sustain revenues at levels equal to or greater than it achieved in 2016.

The Company s plan of operation for the twelve months beginning with the date of this quarterly report consists of concentrating available human and financial resources to continue to capitalize on the specific business relationships the Company has developed in the entertainment and toy products market including two licensees with a significant presence in the entertainment and toy products market that have been marketing products incorporating the Company s technologies since 2012. These two licensees in the entertainment and toy products market are well known and highly regarded participants in this market. The Company believes that these two licensees will expand their offerings incorporating the Company s technologies currently being marketed and will introduce new products incorporating available technologies covered by the license agreements that are not currently being marketed by them. The Company plans to continue developing applications for these licensees while expanding its licensee base in the entertainment and toy market. The Company has additional licensees marketing or developing products incorporating the Company s technologies in certain geographic and niche markets of the overall entertainment and toy products market. In late 2015, the Company added a licensee who began marketing products incorporating the Company s available technologies in certain international markets in 2016. The Company maintains its presence in the retail loss prevention market and believes that revenue growth in this market can be achieved through increased security ink sales to its licensees in this market. The Company will continue to adjust its production and technical staff as necessary. The Company will also, subject to available financial resources, invest in capital equipment needed to support potential growth in ink production requirements beyond its current capacity. Additionally, the Company will pursue opportunities to market its current technologies in specific security and non-security markets. There can be no assurances that these efforts will enable the Company to generate additional revenues and positive cash flow.

The Company has received and continues to seek additional capital, in the form of debt, equity or both, to support its working capital requirements. There can be no assurances that the Company will be successful in raising additional capital, or that such additional capital, if obtained, will enable the Company to generate additional revenues and positive cash flow.

The Company generates a significant portion of its total revenues from licensees in the entertainment and toy products market. These licensees generally sell their products through retail outlets. During the year, such sales may be adversely affected by changes in consumer spending that may occur as a result of an uncertain economic environment. As a result, the Company s revenues, results of operations and liquidity may be negatively impacted as they were in previous years.

**Risk Factors**

The Company s operating results, financial condition and stock price are subject to certain risks, some of which are beyond the Company s control. These risks could cause actual operating and financial results to differ materially from those expressed in the Company s forward-looking statements, including the risks described below and the risks identified in other documents which are filed and furnished with the SEC including the Company s Annual Report on Form 10-K for the year ended December 31, 2016 that was filed with the SEC on March 30, 2017:

*Limited Interim Historical Information.* In September 2015, the Company filed a comprehensive annual report on Form 10-K for the fiscal years ended December 31, 2012, 2013 and 2014. The Form 10-K contains summarized quarterly financial information for each of the quarters ended June 30 and September 30, 2012 and for each of the quarters ended March 31, June 30 and September 30, 2013 and 2014. As the complete periodic filings for those periods have not been filed, certain financial information, disclosures and discussions normally contained in a Form 10-Q were not included in the Form 10-K. The omission of the information that would have been contained in these periodic filings leaves current and prospective investors, customers, employees and others without this source of information about the Company s business achievements and prospects and may negatively impact the Company s business opportunities and its ability to raise capital. There can be no assurances that the Company will be able to remain current with its required SEC filing obligations in the future.

*Access to Capital.* The Company anticipates that it may need to raise capital in the future to fund its historical and new business operations. Negative or uncertain global economic conditions would make it more difficult for the Company to raise capital. If the Company is unable to secure capital, if needed, in the future, in the form debt, equity or both, it may be forced to cease operations. There can be no assurances that, if required, the Company will be successful in obtaining additional investment in sufficient amounts to fund its ongoing business operations.

*Dependency on Major Customers.* The Company is dependent on its licensees to develop new products and markets that will generate increases in its licensing and product revenues. The inability of the Company s licensees to maintain at least current levels of sales of products utilizing the Company s technologies would adversely affect the Company s operating results and cash flow. To the extent that the Company s licensees are affected by negative economic conditions, the Company s revenues would also be negatively impacted. The Company derives a significant percentage of its revenues through licensing relationships with two major customers. Revenues obtained directly from these two licensees and indirectly, through the licensees third party authorized printers, equaled approximately 81% and 79% of the Company s revenues in the second quarter and first six months of 2017, respectively, and approximately 80% of the Company s revenues in the year ended December 31, 2016. Receivables from these two licensees and their third party authorized printers were approximately 86% and 83% of the Company s net accounts receivable at June 30, 2017 and December 31, 2016, respectively. The Company has a license agreement containing guaranteed minimum royalties, which have been met, expiring in 2019 with one of these two licensees and a license with the second that expires in 2017. Products incorporating the Company s technologies that are sold by these two licensees have certain dissimilar characteristics and are marketed generally through distinctly different channels of distribution. These two licensees are well-known and highly regarded participants in the entertainment and toy products market. The agreements with both licensees contain renewal options but there can be no assurances that the licenses will be renewed or that they will be renewed at the same or more favorable terms beyond their current termination dates, nor can there be any assurances that the relationships with these two licensees will generate increased revenues for the Company in the future.

*Possible Inability to Develop New Business*. Management of the Company believes that any significant improvement in the Company s cash flow must result from increases in revenues from traditional sources and from new revenue sources. The Company raised cash through additional capital investment and loans from investors in 2012, 2013 and 2014. The Company also benefited from limiting increases in its operating expenses and reducing its operating expenses when possible. The Company s ability to develop new revenues may depend on the extent of its marketing activities and its research and development activities, both of which are limited. There are no assurances that the resources that the Company can devote to marketing and to research and development will be sufficient to increase its revenues to levels that will enable it to maintain positive operating cash flow in the future.

*Inability to Obtain Raw Materials and Products for Resale.* The Company s adverse financial condition in the past has required it to significantly defer payments due to (i) vendors who supply raw materials and other components of the lines of inks marketed by the Company, (ii) providers of professional and other services and (iii) certain employees to whom salary and sales commissions are owed. As a result, the Company is required to pay cash in advance of shipment to certain of its suppliers. The inability to obtain materials on a timely basis and the possibility that certain vendors may permanently discontinue supplying the Company with needed products and services threaten to result in delayed shipments to customers and further impact the Company s ability to service its customers, thereby adversely affecting the Company s relationships with its customers and licensees. There can be no assurances that the Company will be able to maintain its vendor relationships in an acceptable manner.

*Uneven Pattern of Quarterly and Annual Operating Results*. The Company s revenues, which are derived primarily from licensing, royalties and sales of products incorporating its technologies, are difficult to forecast; such forecasting difficulty is due to, among other reasons, the long sales cycle of the Company s technologies, the potential for customer delay or deferral of implementation of the Company s technologies, the size and timing of inception of individual license agreements, the success of the Company s licensees and strategic partners in exploiting the market for the licensed products, modifications of customer budgets, and uneven patterns of royalty revenue and product orders. As the Company s revenue base is not substantial, delays in finalizing license contracts, implementing the technology to initiate the revenue stream and ordering decisions of customers can have a material adverse effect on the Company s quarterly and annual revenue expectations. As the Company s operating expenses are substantially fixed, income expectations will be subject to a similar adverse outcome. As licensees for the entertainment and toy products markets are added, the predictability of the Company s revenue stream may be further impacted.

*Volatility of Stock Price*. The market price for the Company s common stock has historically experienced significant fluctuations and may continue to do so. From inception, with the exception of 2007, 2013, 2014 and 2016, the Company has operated at a loss and has not produced revenue levels traditionally associated with publicly-traded companies. The Company s common stock is not listed on a national or regional securities exchange and, consequently, the Company receives limited publicity regarding its business achievements and prospects. Additionally, securities analysts and traders do not extensively follow the Company s stock and its stock is thinly traded. The Company s market price may be affected by announcements of new relationships or modifications to existing relationships. The stock prices of many developing public companies, particularly those with small capitalizations, have experienced wide fluctuations not necessarily related to operating performance. Such fluctuations may adversely affect the market price of the Company s common stock.

*Intellectual Property.* The Company relies on a combination of protections as may be available under applicable domestic, foreign or international patent, trademark and trade secret laws. The Company also relies on confidentiality, non-analysis and licensing agreements to establish and protect its rights in its proprietary technologies. While the Company attempts to protect these rights, its technologies may be compromised through reverse engineering, independent invention or other means. In addition, the Company s ability to enforce its intellectual property rights through appropriate legal action has been and will continue to be limited by its adverse liquidity. There can be no assurances that the Company will be able to protect the basis of its technologies from discovery by third parties or to preclude third parties from conducting activities that infringe on the Company s rights. The Company s adverse liquidity situation also impacts its ability to obtain patent protection on its intellectual property and to maintain protection on previously issued patents. There can be no assurances that the Company will be able to continue to prosecute new patents and maintain issued patents. As a result, the Company s customer and licensee relationships could be adversely affected, and the value of the Company s technologies and intellectual property (including their value upon liquidation) could be substantially diminished.

*Economic Conditions*. The Company s revenue is susceptible to changes in general economic conditions. The Company s sales, liquidity and overall results of operations may be negatively affected by decreasing consumer confidence, slowdowns in consumer spending or other downturns in the U.S. economy as a whole or in any geographic markets from which the Company derives revenue. In addition, these factors may result in decreased customer and licensee demand for the Company s products and may negatively impact the Company s ability to develop new customers and licensees. Due to uncertainties surrounding the worldwide economy, the Company is unable to predict the effect of such conditions on its customers and licensees. Consequently, the Company cannot predict the scope or magnitude of the negative effect resulting from ongoing global financial uncertainties or economic slowdowns.

**Recently Adopted Accounting Pronouncements**

As of June 30, 2017 and for the three months then ended, there were no recently adopted accounting pronouncements that had a material effect on the Company s financial statements.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

As of June 30, 2017, there are no recently issued accounting standards not yet adopted which would have a material effect on the Company s financial statements through 2017.

**Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**Item 4. Controls and Procedures**

a) Disclosure Controls and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by this report, that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified within the rules and forms of the SEC, and are designed to ensure that information required to be disclosed by the Company in these reports is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company s internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II - OTHER INFORMATION

**Item 6.** Exhibits

(a) Exhibits

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

## SIGNATURES

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

| | |
|---|---|
| | **NOCOPI TECHNOLOGIES, INC.** |
| DATE: August 10, 2017 | /s/ Michael A. Feinstein, M.D.<br>Michael A. Feinstein, M.D.<br>Chairman of the Board, President &<br>Chief Executive Officer |
| DATE: August 10, 2017 | /s/ Rudolph A. Lutterschmidt<br>Rudolph A. Lutterschmidt<br>Vice President & Chief Financial Officer |

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