

NOCOPI TECHNOLOGIES INC/MD/
Form 10-Q
November 16, 2015

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

(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, 2015

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

(State or other jurisdiction of incorporation or organization)

87-0406496

(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 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 No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

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 November 10, 2015

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		Nine Months ended	
	September 30		September 30	
	2015	2014	2015	2014
Revenues				
Licenses, royalties and fees	\$ 76,700	\$ 83,000	\$ 233,600	\$ 240,500
Product and other sales	159,700	125,800	507,900	389,300
	236,400	208,800	741,500	629,800
Cost of revenues				
Licenses, royalties and fees	19,000	17,700	61,000	54,200
Product and other sales	63,300	56,000	207,100	176,500
	82,300	73,700	268,100	230,700
Gross profit	154,100	135,100	473,400	399,100
Operating expenses				
Research and development	31,300	29,200	95,300	90,200
Sales and marketing	49,100	46,800	154,300	141,000
General and administrative	101,600	75,900	253,000	189,500
	182,000	151,900	502,600	420,700
Net loss from operations	(27,900)	(16,800)	(29,200)	(21,600)
Other income (expenses)				
Interest income				300
Interest expense, accretion of interest, bank charges and financing cost	(21,900)	(5,600)	(32,200)	(16,200)
	(21,900)	(5,600)	(32,200)	(15,900)
Net loss	\$ (49,800)	\$ (22,400)	\$ (61,400)	\$ (37,500)

Basic and diluted net loss per common share	\$	(.00)	\$	(.00)	\$	(.00)	\$	(.00)
Basic and diluted weighted average common shares outstanding		58,599,016		58,599,016		58,599,016		58,599,016

*See accompanying notes to these financial statements.

*Nocopi Technologies, Inc.**Balance Sheets**

	September 30 2015 (unaudited)	December 31 2014 (audited)
<i>Assets</i>		
Current assets		
Cash	\$ 154,800	\$ 28,000
Accounts receivable less \$5,000 allowance for doubtful accounts	149,900	287,800
Inventory	28,700	43,500
Prepaid and other	7,300	18,800
Total current assets	340,700	378,100
Fixed assets		
Leasehold improvements	19,700	19,700
Furniture, fixtures and equipment	176,900	176,800
	196,600	196,500
Less: accumulated depreciation and amortization	173,500	178,400
	23,100	18,100
Total assets	\$ 363,800	\$ 396,200
<i>Liabilities and Stockholders' Deficiency</i>		
Current liabilities		
Demand loans	\$ 33,000	\$ 63,000
Convertible debentures	32,600	102,900
Accounts payable	150,100	160,300
Accrued expenses	465,300	383,000
Deferred revenue	69,300	93,400
Total current liabilities	750,300	802,600
Convertible debentures, net of unaccreted discount of \$0 at September 30, 2015 and \$1,400 at December 31, 2014	95,000	31,800
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	12,426,600	12,408,500
Accumulated deficit	(13,494,100)	(13,432,700)
Total stockholders' deficiency	(481,500)	(438,200)
Total liabilities and stockholders' deficiency	\$ 363,800	\$ 396,200

*See accompanying notes to these financial statements.

*Nocopi Technologies, Inc.**Statements of Cash Flows***(unaudited)*

	Nine Months ended	
	September 30	
	2015	2014
Operating Activities		
Net loss	\$ (61,400)	\$ (37,500)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	3,900	2,900
Accretion of interest convertible debentures	21,000	3,400
	(36,500)	(31,200)
(Increase) decrease in assets		
Accounts receivable	137,900	51,800
Inventory	14,800	(19,000)
Prepaid and other	11,500	21,400
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	72,100	26,300
Deferred revenue	(24,100)	9,300
	212,200	89,800
Net cash provided by operating activities	175,700	58,600
Investment Activities		
Additions to fixed assets	(8,900)	(20,000)
Net cash used in investing activities	(8,900)	(20,000)
Financing Activities		
Repayment of borrowings under promissory note		(18,800)
Repayment of demand loans	(30,000)	(5,000)
Proceeds from convertible debenture		5,000
Repayment of convertible debenture	(10,000)	
Net cash used in financing activities	(40,000)	(18,800)
Increase in cash	126,800	19,800
Cash at beginning of year	28,000	52,900
Cash at end of period	\$ 154,800	\$ 72,700
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 1,400	\$ 300

Supplemental Disclosure of Non Cash Investing Activities

Write-off of fully depreciated leasehold improvements and furniture,
 fixtures and equipment

Accumulated depreciation and amortization	\$	(8,800)	\$	(82,900)
Leasehold improvements			\$	72,500
Furniture, fixtures and equipment	\$	8,800	\$	10,400

Supplemental Disclosure of Non Cash Financing Activities

Conversion of demand loans and interest to convertible debentures

Demand loans			\$	(24,500)
Accrued expenses			\$	(3,800)
Convertible debentures			\$	26,400
Paid-in capital			\$	1,900

*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 2014 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 2014 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 nine months ended September 30, 2015 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 September 30, 2015, had accumulated losses of \$13,494,100. For the nine months ended September 30, 2015, the Company had a net loss from operations of \$29,200. At September 30, 2015, the Company had negative working capital of \$409,600 and a stockholders deficiency of \$481,500. For the year ended December 31, 2014, the Company's net income from operations was \$29,000. Due in part to uncertainties in the US economy, 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. Achieving profitability and positive cash flow depends on the Company's ability to generate and sustain significant increases in revenues and gross profits from its traditional business. There can be no assurances that the Company will be able to generate sufficient revenues and gross profits to return to and sustain profitability and positive cash flow in

the future.

During 2013 and 2014, the Company sold convertible debentures totaling \$110,000 to eight investors and received an unsecured loan of \$3,000 from an individual. Receipt of funds from these investors and from the demand loan holder has permitted the Company to continue in operation to the current date. Management of the Company believes that it may need additional capital in the future both to fund investments needed to increase its operating revenues to levels that will sustain its operations and to fund operating deficits that it believes may occur until revenue increases from traditional and new product lines can be realized. 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 forced to cease operations at an undetermined future date.

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 September 30, 2015, the Company had no exercisable or non-exercisable options to purchase the Company's common stock outstanding. The Company's stock option plan terminated in 2009 and no further stock options could be granted under the plan; however, stock options granted before the termination date could have been exercised through their expiration dates. All remaining options granted under the plan expired in February 2014. There was no unrecognized portion of expense related to stock option grants at September 30, 2015.

NOCOPI TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 4. Promissory Note

In 2008, the Company negotiated a \$100,000 revolving line of credit with a bank to provide a source of working capital. The line of credit was secured by all the assets of the Company and bore interest at the bank's prime rate plus 0.5%. During the term of the line of credit, the interest rate applicable to the Company's line of credit was 3.75%. During the year ended December 31, 2009, the Company borrowed the entire \$100,000 available under the line of credit. Until the third quarter of 2010, the Company had been required to pay interest only on borrowings under the line of credit. During the third quarter of 2010, the Company was notified by the bank that the line of credit was not being renewed and was offered repayment terms, which the Company accepted, to repay the outstanding loan balance in forty-eight equal monthly installments of \$2,083, plus interest at the bank's prime rate plus 0.5%, which was 3.75% throughout the repayment term, beginning in October 2010. In early July 2014, the Company repaid \$6,250, the then remaining outstanding balance of the note.

Note 5. Demand Loans

At September 30, 2015, the Company had unsecured loans totaling \$33,000 from three individuals outstanding. The loans bear interest at 8%. During the first nine months of 2015, the Company repaid \$30,000 of the unsecured loans.

Note 6. Convertible Debentures

At September 30, 2015, the Company had convertible debentures totaling \$127,600 outstanding, of which \$32,600 are due during the third quarter of 2016 and \$95,000 are due during the third quarter of 2017. 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. In July 2015, the Company repaid, with interest, a \$10,000 convertible debenture that had matured. During the third quarter of 2015, the Company's Board of Directors approved and the holders of \$95,000 of convertible debentures maturing during the third quarter of 2015 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 \$18,100 with an offsetting credit to additional-paid in capital. In the three months and nine months ended September 30, 2015, the entire \$18,100 was accreted through interest expense.

The Company 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 is being accreted through interest expense over the term of the notes payable. For the three months and nine months ended September 30, 2015, approximately \$300 and \$2,900, respectively, was accreted through interest expense. For the three months and nine months ended September 30, 2014, approximately \$1,300 and \$3,400, respectively, was accreted through interest expense.

The following table summarizes all warrant activity of the Company since December 31, 2014:

	Number of Shares	Exercise Price	Weighted Average Exercise Price
Outstanding warrants - December 31, 2014	802,365	\$0.01 to \$0.07	\$ 0.025
Warrants expired	46,000	\$0.06 and \$0.07	\$ 0.068
Outstanding warrants - September 30, 2015	756,365	\$0.01 to \$0.07	\$ 0.022
Weighted average remaining contractual life (years)	4.76		
Exercisable warrants - September 30, 2015	590,000	\$0.01 to \$0.07	\$ 0.023
Weighted average remaining contractual life (years)	4.48		

NOCOPI TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 7. Other Income (Expenses)

Other income (expenses) in the three months and nine months ended September 30, 2015 and September 30, 2014 includes interest on unsecured loans from five individuals, on convertible debentures held by ten investors and, in 2014, on funds borrowed under the Company's promissory note with a bank.

Note 8. Income Taxes

There is no income tax benefit for the losses for the three months and nine months ended September 30, 2015 and September 30, 2014 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 September 30, 2015 and there was no accrual for uncertain tax positions as of September 30, 2015.

Tax years from 2011 through 2014 remain subject to examination by U.S. federal and state jurisdictions.

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 stock options and warrants for which the market price exceeds the exercise price. The number of shares issuable upon the exercise of such stock options and warrants is decreased by shares that could have been purchased by the Company with related proceeds. Because the Company reported a net loss for the three months and nine months ended September 30, 2015 and September 30, 2014, common stock equivalents, consisting of warrants to purchase common stock, 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		Nine Months ended	
	2015	September 30 2014	2015	September 30 2014
Customer A	53%	38%	57%	46%
Customer B	13%	24%	18%	20%

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:

	September 30 2015	December 31 2014
Customer A	27%	46%
Customer B	21%	35%

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.

NOCOPI TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

The Company's revenues by geographic region are as follows:

	Three Months ended		Nine Months ended	
	September 30		September 30	
	2015	2014	2015	2014
North America	\$ 110,000	\$ 125,100	\$ 308,600	\$ 326,900
Asia	126,400	83,700	432,900	302,900
	\$ 236,400	\$ 208,800	\$ 741,500	\$ 629,800

Note 11. Subsequent Events

In October and November 2015, the Company repaid \$9,500 of the principal of the outstanding demand loans and \$2,500 of accrued interest.

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, estimate, potential, continue and similar expressions, as they relate to the Company, are intended to identify 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, 2014 filed with the Securities and Exchange Commission (the SEC) on September 11, 2015 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 third quarter of 2015 were \$236,400 compared to \$208,800 in the third quarter of 2014, an increase of \$27,600, or approximately 13%. Licenses, royalties and fees decreased by \$6,300, or approximately 8%, to \$76,700 in the third quarter of 2015 from \$83,000 in the third quarter of 2014. The decrease in licenses, royalties and fees is due primarily to lower quarterly licensing revenues from an existing licensee in the entertainment and toy products market who signed a new four-year license late in the second quarter of 2015 offset in part by higher royalties from certain licensees, including one new licensee. While the financial terms of the new four-year license with the existing licensee approximate the former license in the aggregate, the timing and amount of payments of the license fees over the term of the new license are different from the earlier license. 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 \$33,900, or approximately 27%, to \$159,700 in the third quarter of 2015 from \$125,800 in the third quarter of 2014. Sales of ink increased in the third quarter of 2015 compared to the third quarter of 2014 due primarily to higher ink shipments to a third party authorized printer used by two of the Company's major licensees in the entertainment and toy products market. In the third quarter of 2015, the Company derived revenues of approximately \$181,400 from its licensees and their authorized printers in the entertainment and toy products market compared to revenues of approximately \$140,500 in the third quarter of 2014.

For the first nine months of 2015, revenues were \$741,500, representing an increase of \$111,700, or approximately 18% higher than revenues of \$629,800 in the first nine months of 2014. Licenses, royalties and fees of \$233,600 in the first nine months of 2015 were \$6,900, or approximately 3%, lower than licenses, royalties and fees of \$240,500 in the first nine months of 2014. The decrease in licenses, royalties and fees in the first nine months of 2015 compared to the first nine months of 2014 is due primarily to lower consulting revenue related to the expiration of a consulting

arrangement with a customer in 2014 offset in part by higher licensing revenues from existing licensees in the entertainment and toy products market.

Product and other sales increased by \$118,600, or approximately 30%, to \$507,900 in the first nine months of 2015 from 389,300 in the first nine months of 2014. Sales of ink increased in the first nine months of 2015 compared to the first nine months of 2014 due primarily to higher ink shipments to a third party authorized printer 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 \$603,800 from licensees and their authorized printers in the entertainment and toy products market in the first nine months of 2015 compared to revenues of approximately \$450,900 in the first nine months of 2014.

The Company's gross profit increased to \$154,100 in the third quarter of 2015, or approximately 65% of revenues, from \$135,100 in the third quarter of 2014 or approximately 65% 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 third quarter of 2015 compared to the third quarter of 2014 results primarily from higher gross revenues from product and other sales in the third quarter of 2015 compared to the third quarter of 2014 along with gross profit improvements related to both the mix of products sold and favorable raw material prices in the third quarter of 2015 compared to the third quarter of 2014 offset in part by lower gross revenues from licenses, royalties and fees and product and other sales in the third quarter of 2015 compared to the third quarter of 2014.

For the first nine months of 2015, gross profit was \$473,400, or approximately 64% of revenues, compared to \$399,100, or approximately 63% of revenues, in the first nine months of 2014. The higher gross profit in the first nine months of 2015 compared to the first nine months of 2014 results from the same positive factors as the increase in the third quarter of 2015 compared to the third quarter of 2014.

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. Primarily due to lower revenues from licenses, royalties and fees in the third quarter of 2015 compared to the third quarter of 2014, the gross profit from licenses, royalties and fees declined to approximately 75% of revenues in the third quarter of 2015 from approximately 79% of revenues in the third quarter of 2014. The gross profit from licenses, royalties and fees was approximately 74% in the first nine months of 2015 compared to approximately 77% in first nine months of 2014 resulting from the same factors as the third quarter of 2015 compared to the third quarter of 2014.

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 60% of revenues in the third quarter of 2015 compared to approximately 55% of revenues in the third quarter of 2014. This increase was due to favorable margins on certain products due to a favorable mix of products sold and raw materials prices. For the first nine months of 2015, the gross profit, expressed as a percentage of revenues, increased to approximately 59% of revenues from product and other sales compared to approximately 55% of revenues from product and other sales in the first nine months of 2014.

Research and development expenses of \$31,300 in the third quarter of 2015 and \$95,300 in the first nine months of 2015 were comparable to \$29,200 in the third quarter of 2014 and \$90,200 in first nine months of 2014.

Sales and marketing expenses increased to \$49,100 in the third quarter of 2015 from \$46,800 in the third quarter of 2014 and to \$154,300 in the first nine months of 2015 from \$141,000 in the first nine months of 2014. This increase is due primarily to higher commission expense on the higher level of sales in the third quarter and first nine months of 2015 compared to the third quarter and first nine months of 2014.

General and administrative expenses increased in the third quarter and first nine months of 2015 to \$101,600 and \$253,000, respectively, from \$75,900 and \$189,500 in the third quarter and first nine months of 2014, respectively, due primarily to higher expenses incurred in the third quarter and first nine months of 2015 compared to the third quarter and first nine months of 2014 related to the Company's filing of the comprehensive annual report on Form 10-K and the first and second quarter 2015 Form 10-Q's that were filed during the third quarter of 2015. These expenses included legal and audit fees incurred in the third quarter and first nine months of 2015 as well as expenses related to the electronic filing of the documents.

Other income (expenses) in the three months and nine months ended September 30, 2015 and September 30, 2014 includes interest on unsecured loans from five individuals, on convertible debentures held by ten investors and, in 2014, on funds borrowed under the Company's promissory note with a bank.

The net loss of \$49,800 and \$61,400 in the third quarter and first nine months of 2015, respectively, compared to the net loss of \$22,400 and \$37,500 in the third quarter and first nine months of 2014, respectively, resulted primarily from a higher gross profit on a higher level of revenues in the third quarter and first nine months of 2015 compared to the third quarter and first nine months of 2014 offset by higher overhead expenses along with accretion of interest in the third quarter and first nine months of 2015 compared to the third quarter and first nine months of 2014.

Plan of Operation, Liquidity and Capital Resources

During the first nine months of 2015, the Company's cash increased to \$154,800 at September 30, 2015 from \$28,000 at December 31, 2014. During the first nine months of 2015, the Company generated \$175,700 from its operating activities, used \$8,900 for capital equipment, repaid \$10,000 to a convertible debenture holder and repaid \$30,000 to two individual lenders.

During the first nine months of 2015, the Company's revenues increased primarily as a result of higher sales of ink to the authorized printer of four of the Company's licensees in the entertainment and toy products market and higher license fees from a licensee in the entertainment and toy products market. The Company's total overhead expenses increased in the first nine months of 2015 compared to the total overhead expenses in the first nine months of 2014. As a result of these factors, the Company's net loss increased in the first nine months of 2015 compared to the first nine months of 2014. The Company had positive operating cash flow of \$175,700 during the first nine months of 2015. At September 30, 2015, the Company had negative working capital of \$409,600 and a stockholders' deficiency of \$481,500. For the full year of 2014, the Company had net income of \$7,700 and had positive operating cash flow of \$14,500. At December 31, 2014, the Company had negative working capital of \$424,500 and a \$438,200 stockholders' deficiency.

During 2010, the Company accepted an offer by a bank to repay the then outstanding balance of \$100,000 under its line of credit, received in 2008, with that bank in forty-eight equal monthly installments, plus interest, beginning in October 2010. The remaining outstanding balance was repaid in July 2014. Through September 30, 2015, the Company repaid \$37,500 of \$96,500 in unsecured loans borrowed from five individuals, converted \$1,500 of the principal of the unsecured loans and approximately \$1,200 of accrued interest into 44,216 shares of its common stock and exchanged \$24,500 of the principal of the unsecured loans and approximately \$3,800 of accrued interest for convertible debentures totaling approximately \$28,300. In 2014 and 2013, the Company raised \$110,000 through the sale of convertible debentures to eight investors and, in 2015, repaid \$10,000 of the convertible debentures. These borrowings and sales of common stock in recent years have allowed the Company to remain in operation through the current date. There can be no assurances that the Company will be able to secure sufficient additional funding through investments or borrowings that will allow the Company to fund losses that it presently believes may continue during 2015. The Company believes that without additional investment, it may be forced to cease operations at an undetermined date in the future.

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 niche markets of the overall entertainment and toy products market. 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, 2014 that was filed with the SEC on September 11, 2015:

Limited Interim Historical Information. The Company filed a comprehensive annual report on Form 10-K for the fiscal years ended December 31, 2012, 2013 and 2014 on September 11, 2015. 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 could 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 could 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 may 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 printer, equaled approximately 74% and 79% of the Company's revenues in the third quarter and first nine months of 2015, respectively, and approximately 68% of the Company's revenues in 2014. The Company also has, from time to time, substantial receivables from these businesses. The Company has a license agreement containing guaranteed minimum royalties 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 continue in force 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 and 2014, 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 provided under applicable 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 actively attempts to protect these rights, its technologies may be compromised through reverse engineering 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 unauthorized third parties or to preclude unauthorized persons 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 September 30, 2015 and for the period 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 September 30, 2015, there are no recently issued accounting standards not yet adopted which would have a material effect on the Company's financial statements.

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: November 16, 2015

/s/ Michael A. Feinstein, M.D.
Michael A. Feinstein, M.D.
Chairman of the Board, President &
Chief Executive Officer

DATE: November 16, 2015

/s/ Rudolph A. Lutterschmidt
Rudolph A. Lutterschmidt
Vice President & Chief Financial Officer

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