

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

NOCOPI TECHNOLOGIES INC/MD/
Form 10QSB
August 19, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2003.

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

For the transition period from _____ to _____

Commission file number 0-20333

NOCOPI TECHNOLOGIES, INC.

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

MARYLAND

87-0406496

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

9 Portland Road, West Conshohocken, PA 19428

(Address of principal executive offices)

(610) 834-9600

(Issuer's telephone number)

Check whether the issuer has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

State the number of shares outstanding of each of the issuer's classes of common equity, as of August 1, 2003: Common stock, par value \$.01 per share: 45,972,241 shares.

Transitional Small Business Disclosure Format (check one): Yes No X

NOCOPI TECHNOLOGIES, INC.

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

INDEX

Part I. FINANCIAL INFORMATION	PAGE
Item 1. Financial Statements	
Statements of Operations Three Months and Six Months Ended June 30, 2003 and June 30, 2002	1
Balance Sheet June 30, 2003	2
Statements of Cash Flows Six Months Ended June 30, 2003 and June 30, 2002	3
Notes to Financial Statements	4-5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	6-12
Item 3. Controls and Procedures	13
Part II. OTHER INFORMATION	14
Signatures	15

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Nocopi Technologies, Inc.
Statements of Operations
(unaudited)

	Three Months ended June 30 2003	2002	Six Mo 2003
	-----	-----	-----
Revenues			(Note
Licenses, royalties and fees	\$78,600	\$103,900	\$171,
Product and other sales	75,400	72,900	127,
	-----	-----	-----
	154,000	176,800	298,
Cost of sales			
Licenses, royalties and fees	42,700	49,800	78,
Product and other sales	36,400	45,600	68,

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

	79,100	95,400	146,
Gross profit	74,900	81,400	152,
Operating expenses			
Research and development	49,400	63,300	98,
Sales and marketing	31,900	70,800	118,
General and administrative (exclusive of legal expenses)	60,300	51,500	144,
Legal expenses	30,200	140,300	48,
	171,800	325,900	409,
Loss from operations	(96,900)	(244,500)	(257,
Other income (expenses)			
Interest income	200	--	
Interest expense and bank charges	(3,500)	(2,300)	(6,
Net proceeds from arbitration settlement	932,700	--	875,
	929,400	(2,300)	868,
Net earnings (loss)	\$832,500	(\$246,800)	\$611,
Basic and diluted earnings (loss) per common share	\$.02	(\$.01)	\$
Weighted average common shares outstanding	45,972,241	42,238,908	45,972,

See notes to financial statements.

1

Nocopi Technologies, Inc.
Balance Sheet
(unaudited)

	June 30 2003

Assets	
Current assets	
Cash and cash equivalents	\$339,000
Accounts receivable less allowance	54,900
Arbitration settlement receivable	50,000
Prepaid and other	33,700

Total current assets	477,600
Fixed assets	

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

Leasehold improvements	52,300
Furniture, fixtures and equipment	476,200

	528,500
Less: accumulated depreciation	505,900

	22,600
Other assets	
Arbitration settlement receivable	150,000

Total assets	\$650,200
	=====
Liabilities and Stockholders' Deficiency	
Current liabilities	
Demand loans	\$164,900
Accounts payable	359,900
Accrued expenses	285,700
Deferred revenue	98,300

Total current liabilities	908,800
Stockholders' deficiency	
Common stock, \$.01 par value	
Authorized - 75,000,000 shares	
Issued and outstanding - 45,972,241 shares	459,700
Paid-in capital	11,141,100
Accumulated deficit	(11,859,400)

	(258,600)

Total liabilities and stockholders' deficiency	\$650,200
	=====

See notes to financial statements.

2

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

	Six Months ended June 30	
	2003	2002
	-----	-----
Operating Activities		
Net earnings (loss)	\$611,500	(\$47,000)
Adjustments to reconcile net loss to cash from operating activities		
Depreciation	4,200	
	-----	-----
	615,700	(46,800)
(Increase) in assets		
Accounts receivable	(15,800)	(4,000)
Arbitration settlement receivable	(200,000)	
Prepaid and other	(2,700)	

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(277,100)	14
Deferred revenue	(22,400)	3
	-----	-----
	(518,000)	12
	-----	-----
Cash provided by (used in) operating activities	97,700	(33
Investing Activities		
Additions to fixed assets	(12,800)	
Investment in affiliate	110,600	
	-----	-----
Cash provided by investment activities	97,800	
Financing Activities		
Issuance of common stock, net	--	21
Demand loans	4,500	12
	-----	-----
Cash provided by financing activities	4,500	34
	-----	-----
Increase in cash and cash equivalents	200,000	
Cash and cash equivalents - beginning of period	139,000	
	-----	-----
Cash and cash equivalents - end of period	\$339,000	\$
	=====	=====

See notes to financial statements.

3

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 2002 Annual Report on Form 10-KSB. 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 2002 Annual Report on Form 10-KSB should be read in conjunction with the accompanying interim financial statements. The interim operating results for the three and six months ended June 30, 2003 may not be necessarily indicative of the operating results expected for the full year.

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

Note 2. Settlement of Arbitration with Affiliate

In June 2003, the Company settled its arbitration proceeding commenced by Euro-Nocopi, S.A. (Euro). Under the terms of the settlement, Euro paid \$900,000 to Nocopi and will pay an additional \$200,000 in the future for back royalties and all other matters in dispute between the two companies, as well as the termination of Nocopi's 18% ownership of Euro. As part of the Settlement, the Company and Euro entered into an amended and restated license pursuant to which the Company has agreed that Euro may continue to market the Company's technologies in Europe. The \$200,000 will be paid in four equal annual installments commencing in March 2004. The Company recorded a net gain of \$932,700 and \$875,300, respectively, in the second quarter and first half of 2003 representing the proceeds of the settlement net of the Company's \$110,600 investment in Euro and legal expenses incurred during 2003 related to the arbitration.

For the first quarter of 2003 arbitration related legal expense of \$57,400 was reclassified from legal expenses to net proceeds from arbitration settlement.

Note 3. Demand Loans

During the first six months of 2003, the Company received additional unsecured loans of \$4,500 from its Chairman of the Board, increasing the total demand loans outstanding to \$164,900. The loans bear interest at seven per cent per year and are payable on demand. The loans were used to finance the Company's working capital requirements.

4

Note 4. Income Taxes

There is no provision for income taxes for the three months and six months ended June 30, 2003 due to the availability of net operating loss carryforwards for which the Company had previously established a 100% valuation allowance for deferred tax assets due to the uncertainty of their recoverability.

Note 5. Going Concern

Since its inception, the Company has incurred significant losses and, as of June 30, 2003, had accumulated losses of \$11,859,400. For the years ended December 31, 2002 and 2001, the Company's net losses were \$924,500 and \$828,600, respectively. In addition, the Company had negative working capital of \$431,200 at June 30, 2003. The Company may incur further 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 achieve and sustain profitability and positive cash flow in the future.

The receipt of \$900,000 in June 2003 in conjunction with the settlement of its arbitration proceedings with Euro-Nocopi, S.A. has permitted the Company to continue in operation to the current date. As a result of the settlement, the significant legal fees incurred in the arbitration will be eliminated. Additionally, the Company has reduced staff and, during the third quarter of 2003, will relocate to a new facility that it believes will enable the Company to further reduce its operating expenses. Management of the Company believes that it will need to

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

obtain 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 anticipates will continue until revenue increases 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 improve its business so as to have a material positive effect on the Company's operations and cash flow. The Company believes that without additional investment, it may be forced to cease operations at an undetermined future date.

5

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

Forward-Looking Information

The following Management's Discussion and Analysis of Results of Operations and Financial Condition should be read in conjunction with our audited Financial Statements and Notes thereto for the year ended December 31, 2002 included in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission.

The information in this discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Such factors include those described in "Uncertainties That May Affect the Company, its Operating Results and Stock Price." The forward-looking statements included in this report may prove to be inaccurate. In light of the significant uncertainties inherent in these forward-looking statements, you should not consider this information to be a guarantee by us or any other person that our objectives and plans will be achieved. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results (expressed or implied) will not be realized.

Results of Operations

The Company's revenues are derived from royalties paid by licensees of the Company's technologies, fees for the provision of technical services to licensees and from the direct sale of products incorporating the Company's technologies, such as inks, security paper and pressure sensitive labels, and 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 in certain cases and additional royalties which typically vary with the licensee's sales or production of products incorporating the licensed technology. Service fees and sales revenues vary directly with the number of units of service or product provided.

Because the Company has a relatively high level of fixed costs, 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

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

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

6

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 2003 were \$154,000 compared to 176,800 in the second quarter of 2002, a 13% decline. Licenses, royalties and fees declined by \$25,300, or 24%, to \$78,600 in the second quarter of 2003 from \$103,900 in the second quarter of 2002. The reduction in licenses, royalties and fees is due primarily to the termination during the second half of 2002 and early 2003 of license arrangements with three customers offset in part by license revenues received from one new licensee. Product sales were \$75,400 in the second quarter of 2003 compared to \$72,900 in the second quarter of 2002, a 3% increase due primarily to modestly higher sales of the Company security paper and inks. For the first six months of 2003, revenues were \$298,900, 21% lower than revenues of \$378,700 in the first six months of 2002. Licenses, royalties and fees of \$171,100 in the first half of 2003 were \$67,300, or 28%, lower than the \$238,400 in the first half of 2002 as license fees and royalties from new licensees did not offset those lost from terminated or discontinued license arrangements. Product sales were \$127,800 in the first half of 2003 compared to \$140,300 in the first half of 2002, a 9% decline. The decrease in product sales reflects lower sales of the Company's line of security papers during the first half of 2003 compared to the first half of 2002.

The Company's gross profit declined to \$74,900 in the second quarter of 2003 or 49% of revenues from \$81,400 or 46% of revenues in the second quarter of 2002. Licenses, royalties and fees carry a substantially higher gross profit than product sales, which 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 significantly lower gross profit than licenses, royalties and fees. The lower gross profit in the second quarter of 2003 compared to the second quarter of 2002 results principally from a decrease in revenues represented by licenses, royalties and fee offset in part by lower costs of production, including salaries, of the ink products used by licensees.

For the first six months of 2003, the gross profit was \$152,400, or 51% of revenues compared to \$185,000, or 49% of revenues, in the first half of 2002. The decline in the gross profit in absolute dollars in the first half of 2003 compared to the first half of 2002 resulted from the same factors as the second quarter decline.

Research and development expenses decreased to \$49,400 in the second quarter of 2003 from \$63,300 in the second quarter of 2002. For the first six months of 2003, research and development expenses were \$98,600 compared to

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

\$129,400 in the first half of 2002. The decrease in both the second quarter and first half of 2003 relates primarily to the termination at December 31, 2002 of a consulting agreement with a former executive officer and director of the Company.

7

Sales and marketing expenses were \$31,900 in the second quarter of 2003 compared to \$70,800 in the second quarter of 2002. For the first six months of 2003, sales and marketing expenses were \$118,100 compared to \$149,300 in the first six months of 2002. The decrease in both the second quarter and first half of 2003 relates to the departure of a sales executive late in the first quarter of 2003 and lower travel expenses in 2003 compared to 2002. The first half 2003 sales and marketing expenses includes fees of approximately \$18,000 paid to a member of the partnership that acquired 3,333,333 shares of the Company's common stock in late 2002 who was engaged as a sales and marketing consultant in accordance with the terms of the subscription agreement.

General and administrative expenses (exclusive of legal expenses) increased to \$60,300 in the second quarter of 2003 from \$51,500 in the second quarter of 2002. The increase in the second quarter of 2003 compared to the second quarter of 2002 relates to higher expenses associated with its patent activities. For the first six months, general and administrative expenses (exclusive of legal expense) declined to \$144,100 in 2003 from \$161,200 in 2002 as the Company continued to limit its expenditures to conserve its cash resources.

Legal expenses decreased to \$30,200 and \$48,800, respectively, in the second quarter and first half of 2003 from \$140,300 and \$214,300 in the second quarter and first half of 2002. The second quarter and first half 2003 legal fees associated with the Euro-Nocopi, S.A. arbitration proceedings which were settled in June 2003 were offset against the settlement proceeds. In 2002, the arbitration related legal fees were included in legal expenses.

Other income (expense) includes interest income on funds invested and interest expense on the Demand Loans. Net proceeds from arbitration settlement includes the net gain of \$932,700 and \$875,300, respectively, in the second quarter and first half of 2003 representing the proceeds of the arbitration settlement with Euro-Nocopi, S.A., net of the Company's \$110,600 investment in Euro-Nocopi, S.A. and legal expenses incurred during 2003 related to the arbitration.

The net earnings of \$832,500 and \$611,500, respectively, in the second quarter and first half of 2003 compared to the net loss of \$246,800 and \$472,100, respectively, in the second quarter and first half results primarily from the settlement of the arbitration proceedings with Euro-Nocopi, S.A. during the second quarter of 2003.

Plan of Operation, Liquidity and Capital Resources

The Company's cash and cash equivalents increased to \$339,000 at June 30, 2003 from \$139,000 at December 31, 2002. During the first half of 2003, the Company received \$900,000 in settlement of its arbitration proceedings with Euro-Nocopi, S.A. and a further \$4,500 in demand loans from its Chairman of the Board and used \$704,500 to fund operations, working capital requirements, including the payment of certain accumulated professional fees and other obligations, and leasehold improvements at the new operating facility it will occupy in the third quarter of 2003.

The loss of a number of customers during the past three years and the termination of the license agreement with Euro-Nocopi, S.A. in 2000 have had a material adverse effect on the Company's revenues and results of operations and upon its liquidity and capital resources. The Company believes that the conditions arising from these circumstances raise substantial doubts about the Company's ability to continue as a going concern. The receipt of \$900,000 in June 2003 in conjunction with the settlement of its arbitration proceedings with Euro-Nocopi, S.A. has permitted the Company to continue in operation to the current date. As a result of the settlement, the significant legal fees incurred in the arbitration will be eliminated. Additionally, the Company has reduced staff and, during the third quarter of 2003, will relocate to a new facility that it believes will enable the Company to further reduce its operating expenses. Management of the Company believes that it will need to obtain 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 anticipates will continue until revenue increases 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 improve its business so as to have a material positive effect on the Company's operations and cash flow. The Company believes that without additional investment, it may be forced to cease operations at an undetermined future date.

Uncertainties That May Affect the Company, its Operating Results and Stock Price

The Company's operating results and stock price are dependent upon a number of factors, some of which are beyond the Company's control. These include:

Possible Inability to Continue in Operation Without New Capital Investment. The Company had a negative working capital of \$431,200 at June 30, 2003. Additionally, it experienced negative cash flow from operations of \$432,500 in the year ended December 31, 2002. Management of the Company believes that while certain staff reductions initiated in 2003 and the move of the Company's operations to a new facility during the third quarter of 2003 will reduce the Company's negative cash flow, it anticipates that the negative cash flow will continue until it can achieve revenue increases. Management believes that it will need to obtain 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 anticipates will continue until revenue increases 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 improve its business so as to have a material positive effect on the Company's operations and cash flow. The Company believes that without additional investment, it may be forced to cease operations at an undetermined future date. It is uncertain whether the Company's assets will retain any value if the Company ceases operations. There are no assurances that the Company will be able to secure additional equity investment before it may be forced to cease operations.

Possible Inability to Develop New Business. Even if the Company is able to raise cash through additional capital investment or otherwise, it must quickly improve

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

its operating cash flow. Because the Company has already significantly reduced its operating expenses, Management believes that any significant improvement in the Company's cash flow must result from increases in its revenues from traditional sources and from new revenue sources. The Company's ability to develop new revenues may depend on the extent of both its marketing activities and its research and development activities. There are no assurances that the resources the Company, even with additional investment, can devote to marketing and to research and development will be sufficient to increase the Company's revenues to levels resulting in positive cash flow.

Inability to Obtain Raw Materials and Products for Resale. The Company's adverse financial condition has required it to significantly defer payments due vendors who supply raw materials and other components of the Company's security inks, security paper that the Company purchases for resale and professional and other services. As a result, the Company is required to pay cash in advance of shipment to certain of its suppliers. Delays in shipments to customers caused by the Company's inability to obtain materials on a timely basis and the possibility that certain current vendors may permanently discontinue to supply the Company with needed products could impact the Company's ability to service its customers and adversely affect its customer and licensee relationships. While receipt of funds in conjunction with the settlement of the arbitration with Euro-Nocopi, S.A. has improved the Company's financial condition, 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 and royalties, are difficult to forecast due to the long sales cycle of the Company's technologies, the potential for customer delay or deferral of utilizing 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 licensed products, modifications of customer budgets, and uneven patterns of royalty revenue and product orders. Because the Company's revenue base is not substantial, such delays from one or a small group of customers can have a material adverse effect on the Company's quarterly and annual revenues and, as the Company's operating expenses are substantially fixed, on quarterly and annual operating results.

Volatility of Stock Price. The market price for the Company's common stock has historically experienced significant fluctuations. The Company has, since its inception, 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, and securities analysts and traders do not extensively follow it. These factors may result in the company continuing to experience significant fluctuations in the price of its stock which are not necessarily related to its operating performance.

Intellectual Property. The Company relies on a combination of protections provided under applicable international patent, trademark and trade secret laws. It 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, the Company's technologies could possibly be compromised through reverse engineering or other means. In addition, the Company's ability to enforce its intellectual property rights

Edgar Filing: NOCOPi TECHNOLOGIES INC/MD/ - Form 10QSB

through appropriate legal action has been and will continue to be limited by the Company's 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 has also impacted its ability to obtain patent protection on its intellectual property and to maintain protection on previously issued patents. The Company has been advised by its patent counsel that patent maintenance fees approximating \$20,000 will be due during 2003. The Company has not yet made a decision on keeping any or all of these patents in force. 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 a liquidation of the Company) could be substantially diminished.

Recently Issued Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities - an interpretation of ARB No. 51. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities, is entitled to receive a majority of the entity's residual returns, or both. FIN 46 provisions are effective for all arrangements entered into after January 31, 2003. For those arrangements entered into prior to January 31, 2003, FIN 46 provisions are required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 is not expected to have an impact on the Company's financial statements.

In April 2003, the FASB issued FASB Statement No. 149 ("Statement 149"), Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. Statement 149 is generally effective for derivatives entered into or modified after June 30, 2003 and hedging relationships designated after June 30, 2003. The adoption of this new standard had no effect on the consolidated financial position or results of operations of the Company as of and for the three and six months ended June 30, 2003.

In May 2003, the FASB issued FASB Statement No. 150 ("Statement 150"), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Statement 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities on the balance sheet. Previously, many of those financial instruments were classified as equity. Statement 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of Statement 150 to have a significant impact on its operating results or financial position.

Item 3. 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

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13 a-14. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company that is required to be included in the Company's periodic filings with the Securities and Exchange Commission. There have been no significant changes in the Company's internal controls or, to the Company's knowledge, in other factors that could significantly affect those internal controls subsequent to the date the Company carried out its evaluation.

12

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certificate of Chief Executive Officer required by Rule 13a-14(a).

31.2 Certificate of Chief Financial Officer required by Rule 13a-14(a).

32. Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Edgar Filing: NOCOPI TECHNOLOGIES INC/MD/ - Form 10QSB

The Registrant filed the following Current Report on Form 8-K during the quarter ended June 30, 2003.

June 4, 2003 - Press Release dated June 4, 2003

13

SIGNATURES

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

NOCOPI TECHNOLOGIES, INC.

DATE: August 19, 2003

/s/ Michael A Feinstein, M.D.

Michael A Feinstein, M.D.
Chairman of the Board

DATE: August 19, 2003

/s/ Rudolph A. Lutterschmidt

Rudolph A. Lutterschmidt
Vice President & Chief
Financial Officer

14