

NOCOPI TECHNOLOGIES INC/MD/
Form 10-Q
May 16, 2016

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 March 31, 2016

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 May 1, 2016.

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	
	March 31,	
	2016	2015
Revenues		
Licenses, royalties and fees	\$ 112,800	\$ 78,100
Product and other sales	170,000	110,300
	282,800	188,400
Cost of revenues		
Licenses, royalties and fees	19,600	18,200
Product and other sales	69,100	55,600
	88,700	73,800
Gross profit	194,100	114,600
Operating expenses		
Research and development	37,600	32,900
Sales and marketing	56,500	49,900
General and administrative	87,500	83,500
	181,600	166,300
Net income (loss) from operations	12,500	(51,700)
Other income (expenses)		
Interest expense, bank charges and accretion of interest	(3,400)	(5,200)
	(3,400)	(5,200)
Net income (loss)	\$ 9,100	\$ (56,900)
Basic and diluted net income (loss) per common share	\$.00	\$ (.00)
Weighted average common shares outstanding		
Basic	58,599,016	58,599,016

Diluted

58,600,159

58,599,016

*See accompanying notes to these financial statements.

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

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Current assets		
Cash	\$ 48,400	\$ 11,400
Accounts receivable less \$5,000 allowance for doubtful accounts	268,300	253,300
Inventory	31,200	36,600
Prepaid and other	16,600	32,600
Total current assets	364,500	333,900
Fixed assets		
Leasehold improvements	19,700	19,700
Furniture, fixtures and equipment	176,900	176,900
	196,600	196,600
Less: accumulated depreciation and amortization	177,500	175,700
	19,100	20,900
Total assets	\$ 383,600	\$ 354,800
Liabilities and Stockholders' Deficiency		
Current liabilities		
Demand loans	\$ 19,500	\$ 23,500
Convertible debentures	33,000	32,800
Accounts payable	103,400	76,200
Accrued expenses	455,800	453,000
Deferred revenue	105,900	112,400
Total current liabilities	717,600	697,900
Convertible debentures	95,000	95,000
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	12,426,600
Accumulated deficit	(13,441,600)	(13,450,700)
Total stockholders' deficiency	(429,000)	(438,100)
Total liabilities and stockholders' deficiency	\$ 383,600	\$ 354,800

*See accompanying notes to these financial statements.

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

	Three Months ended	
	March 31,	
	2016	2015
Operating Activities		
Net income (loss)	\$ 9,100	\$ (56,900)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,800	1,200
Accretion of interest convertible debentures	200	1,400
	11,100	(54,300)
 (Increase) decrease in assets		
Accounts receivable	(15,000)	68,100
Inventory	5,400	(11,000)
Prepaid and other	16,000	5,600
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	30,000	3,200
Deferred revenue	(6,500)	
	29,900	65,900
Net cash provided by operating activities	41,000	11,600
 Financing Activities		
Repayment of demand loans	(4,000)	(11,000)
Net cash used in financing activities	(4,000)	(11,000)
Increase in cash	37,000	600
Cash at beginning of year	11,400	28,000
Cash at end of period	\$ 48,400	\$ 28,600

*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 2015 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 2015 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 ended March 31, 2016 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 March 31, 2016, had accumulated losses of \$13,441,600. For the three months ended March 31, 2016, the Company had net income from operations of \$12,500. At March 31, 2016, the Company had negative working capital of \$353,100 and a stockholders' deficiency of \$429,000. For the year ended December 31, 2015, the Company's net loss from operations was \$38,700. 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.

Receipt of funds in periods prior to 2015 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 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 March 31, 2016, the Company did not have an active stock option plan. There was no unrecognized portion of expense related to stock option grants at March 31, 2016.

Note 4. Demand Loans

At March 31, 2016, the Company had unsecured loans totaling \$19,500 from two individuals outstanding. The loans bear interest at 8%. During the first three months of 2016, the Company repaid \$4,000 of the unsecured loans.

NOCOPI TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 5. Convertible Debentures

At March 31, 2016, the Company had convertible debentures totaling \$128,000 outstanding, of which \$33,000 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, \$95,000 principal of the debentures and accrued interest are convertible in whole or part into common stock of the Company at \$0.025 per share and \$33,000 principal of the debentures and accrued interest are convertible in whole or part into common stock of the Company at \$0.05 per share. 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 ended March 31, 2016 and March 31, 2015, approximately \$200 and \$1,400, respectively, was accreted through interest expense.

The following table summarizes all warrant activity of the Company since December 31, 2015:

Weighted Average