

NOCOPI TECHNOLOGIES INC/MD/
Form 10-Q
May 14, 2018

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, 2018

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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has not elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B)

of the Securities Act. "

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: 58,616,716 shares of common stock, par value \$0.01, as of May 11, 2018.

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 | |
| | 2018 | 2017 |
| Revenues | | |
| Licenses, royalties and fees | \$ 174,900 | \$ 158,800 |
| Product and other sales | 250,500 | 182,600 |
| | 425,400 | 341,400 |
| Cost of revenues | | |
| Licenses, royalties and fees | 25,000 | 21,000 |
| Product and other sales | 92,200 | 72,200 |
| | 117,200 | 93,200 |
| Gross profit | 308,200 | 248,200 |
| Operating expenses | | |
| Research and development | 37,100 | 36,400 |
| Sales and marketing | 70,100 | 60,900 |
| General and administrative | 102,700 | 90,700 |
| | 209,900 | 188,000 |
| Net income from operations | 98,300 | 60,200 |
| Other income (expenses) | | |
| Interest income | 400 | |
| Interest expense, bank charges and accretion of interest | (2,900) | (16,200) |
| | (2,500) | (16,200) |
| Net income | \$ 95,800 | \$ 44,000 |
| Basic and diluted net income per common share | \$.00 | \$.00 |
| Weighted average common shares outstanding | | |

| | | |
|---------|------------|------------|
| Basic | 58,616,716 | 58,599,016 |
| Diluted | 58,911,883 | 58,756,023 |

*See accompanying notes to these financial statements.

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

| | March 31 2018 (unaudited) | December 31 2017 (audited) |
|--|--|---|
| <i>Assets</i> | | |
| Current assets | | |
| Cash | \$ 346,400 | \$ 360,400 |
| Accounts receivable less \$5,000 allowance for doubtful accounts | 382,600 | 292,100 |
| Inventory | 108,600 | 110,600 |
| Prepaid and other | 50,200 | 35,300 |
| Total current assets | 887,800 | 798,400 |
| Fixed assets | | |
| Leasehold improvements | 19,700 | 19,700 |
| Furniture, fixtures and equipment | 184,900 | 184,900 |
| | 204,600 | 204,600 |
| Less: accumulated depreciation and amortization | 192,300 | 190,500 |
| | 12,300 | 14,100 |
| Total assets | \$ 900,100 | \$ 812,500 |
| <i>Liabilities and Stockholders' Equity</i> | | |
| Current liabilities | | |
| Convertible debentures | \$ 128,300 | \$ 128,300 |
| Accounts payable | 49,200 | 4,900 |
| Accrued expenses | 315,500 | 364,700 |
| Deferred revenue | | 99,400 |
| Total current liabilities | 493,000 | 597,300 |
| Stockholders' equity | | |
| Common stock, \$0.01 par value | | |
| Authorized 75,000,000 shares | | |
| Issued and outstanding 58,616,716 shares | 586,200 | 586,200 |
| Paid-in capital | 12,440,000 | 12,440,000 |
| Accumulated deficit | (12,619,100) | (12,811,000) |
| Total stockholders' equity | 407,100 | 215,200 |
| Total liabilities and stockholders' equity | \$ 900,100 | \$ 812,500 |

*See accompanying notes to these financial statements.

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

| | Three Months ended | |
|--|---------------------------|-------------|
| | March 31 | |
| | 2018 | 2017 |
| Operating Activities | | |
| Net income | \$ 95,800 | \$ 44,000 |
| Adjustments to reconcile net income to net cash used in operating activities | | |
| Depreciation and amortization | 1,800 | 1,700 |
| Accretion of interest convertible debentures | | 13,200 |
| Cumulative effect of accounting change | 96,100 | |
| | 193,700 | 58,900 |
| (Increase) decrease in assets | | |
| Accounts receivable | (90,500) | (40,100) |
| Inventory | 2,000 | 9,800 |
| Prepaid and other | (14,900) | (3,400) |
| Decrease in liabilities | | |
| Accounts payable and accrued expenses | (4,900) | (67,900) |
| Deferred revenue | (99,400) | (5,600) |
| | (207,700) | (107,200) |
| Net cash used in operating activities | (14,000) | (48,300) |
| Investment Activities | | |
| Additions to fixed assets | | (700) |
| Net cash used in investing activities | | (700) |
| Decrease in cash | (14,000) | (49,000) |
| Cash at beginning of year | 360,400 | 199,100 |
| Cash at end of period | \$ 346,400 | \$ 150,100 |

*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 2017 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 2017 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, 2018 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 is equal to net income.

Note 2. Revenues

On January 1, 2018, the Company adopted ASU 214-09, *Revenue from Contracts with Customers* (Topic 606), using the modified retrospective method. Results for periods beginning on or after January 1, 2018 are presented under Topic 606; however, prior period amounts are not adjusted and continue to be reported in accordance with Topic 605, *Revenue Recognition*, which was in effect for those periods.

The Company recorded a decrease to the opening balance of the accumulated deficit of \$96,100 and a corresponding charge to deferred revenue as of January 1, 2018 due to the cumulative impact of the adoption of Topic 606. The

impact to the revenue for the quarter ended March 31, 2018 as a result of applying Topic 606 was not material. The disclosure of disaggregated revenue is disclosed in Note 9.

The adoption of the new guidance affected our recognition of revenue from licenses and royalties. Under our previous accounting practice, we recognized revenue from licenses and royalties on a straight-line basis over the term of the related license agreement. As a result of our adoption of the new guidance, we will recognize revenue from licensees and royalties at a point in time when the term begins.

The change in accumulated deficit on our Balance Sheet at March 31, 2018, including the aggregate impact of the change in accounting principles which was effective on January 1, 2018, was as follows:

| | | |
|--|-----------------|-----------------|
| Accumulated deficit | January 1, 2018 | \$ (12,811,000) |
| Net earnings | | 95,800 |
| Cumulative effect of accounting change | | 96,100 |
| Accumulated deficit | March 31, 2018 | \$ (12,619,100) |

NOCOPI TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

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, 2018, 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, 2018.

Note 4. Convertible Debentures

At March 31, 2018, the Company had convertible debentures totaling \$128,300 outstanding, which are due during the third quarter of 2018. The convertible debentures bear interest at 7%. At the option of the lender, the debentures and accrued interest are convertible in whole or part into common stock of the Company at \$0.025 per share.

In March 2017, the Company's Board of Directors approved the extension of three convertible debentures totaling \$33,300 that had matured in the third quarter of 2016, one of which is held by a Director of the Company. 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 was recorded as a debt discount to the notes payable of approximately \$13,300 with an offsetting credit to additional paid-in capital. This modification of the \$33,300 principal of the debentures and accrued interest would result in the issuance of 944,953 additional shares of Common Stock of the Company if the entire \$33,300 principal and all accrued interest through maturity were converted into Common Stock of the Company at the new maturity dates.

In the fourth quarter of 2017, the holders of \$95,000 of convertible debentures agreed to extend the maturity dates of those convertible debentures for one year with no change in the terms or conditions of the debentures.

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 has been accreted through interest expense over the term of the notes payable.

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 has been accreted through interest expense over the term of the notes payable.

The following table summarizes the Company's warrant position at March 31, 2018 and December 31, 2017:

| | Number of Shares | | Exercise Price | | Weighted Average Exercise Price |
|--|-----------------------------|----|---------------------------|----|--|
| Outstanding warrants - December 31, 2017 | 691,365 | \$ | 0.02 | \$ | 0.02 |
| Outstanding warrants - March 31, 2018 | 691,365 | \$ | 0.02 | \$ | 0.02 |
| Weighted average remaining contractual life (years) | 2.58 | | | | |
| Exercisable warrants - March 31, 2018 | 691,365 | \$ | 0.02 | \$ | 0.02 |
| Weighted average remaining contractual life (years) | 2.58 | | | | |

NOCOPI TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 5. Other Income (Expenses)

Other income (expenses) in the three months ended March 31, 2018 and March 31, 2017 includes interest on convertible debentures held by nine investors and, in the three months ended March 31, 2017, interest on an unsecured loan from an individual. Also included in other income (expenses) is accretion of debt discounts in the three months ended March 31, 2017 related to the extension of the maturity dates of \$33,300 of convertible debentures.

Note 6. Income Taxes

There is no provision for income taxes for the three months ended March 31, 2018 and March 31, 2017 due to the availability of net operating loss carryforwards. The Company has established a valuation allowance for the entire amount of benefits resulting from the Company's net operating loss carryforwards because the Company has determined that the realization of the net deferred tax asset is not assured.

There was no change in unrecognized tax benefits during the period ended March 31, 2018 and there was no accrual for uncertain tax positions as of March 31, 2018.

Tax years from 2014 through 2017 remain subject to examination by U.S. federal and state jurisdictions.

Note 7. Related Party Transactions

During the three months ended March 31, 2018 and March 31, 2017, the Company paid \$70,900 and \$95,500, respectively, to Michael A. Feinstein, M.D., the Company's Chairman of the Board and Chief Executive Officer, representing a portion of previously deferred salary owed to him under an employment agreement with the Company. During each of the three month periods ended March 31, 2018 and March 31, 2017, Dr. Feinstein deferred \$21,250 of salary. At March 31, 2018, Dr. Feinstein was owed approximately \$150,300 of salary deferred by him. Since March 31, 2018, Dr. Feinstein has been paid approximately \$118,600 of salary previously deferred by him. There is no

interest payable on the deferred salary.

Note 8. Earnings per Share

In accordance with FASB ASC 260, *Earnings per Share*, basic earnings per common share is computed using net earnings divided by the weighted average number of common shares outstanding for the periods presented. The computation of diluted earnings per common share involves the assumption that outstanding common shares are increased by shares issuable upon exercise of those warrants for which the market price exceeds the exercise price. The number of shares issuable upon the exercise of such warrants is decreased by shares that could have been purchased by the Company with related proceeds. For the three months ended March 31, 2018 and March 31, 2017, the number of incremental common shares resulting from the assumed conversion of warrants was 295,167 and 157,007, respectively.

Note 9. 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 | |
|------------|---------------------------|-------------|
| | March 31 | |
| | 2018 | 2017 |
| Customer A | 40% | 33% |
| Customer B | 27% | 28% |
| Customer C | 15% | 12% |

NOCOPI TECHNOLOGIES, INC.**NOTES TO FINANCIAL STATEMENTS****(UNAUDITED)**

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

| | March 31 2018 | December 31 2017 |
|------------|--------------------------|-----------------------------|
| Customer A | 41% | 14% |
| Customer B | 30% | 47% |
| Customer C | 17% | 15% |

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

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

| | Three Months ended | |
|---------------|---------------------------|-------------|
| | March 31 | |
| | 2018 | 2017 |
| North America | \$ 184,900 | \$ 175,100 |
| South America | 1,500 | |
| Asia | 239,000 | 158,900 |
| Australia | | 7,400 |
| | \$ 425,400 | \$ 341,400 |

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

Forward-Looking Information

This report on Form 10-Q contains, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. Examples of forward-looking statements include, among others, statements we make *regarding*

- Expected operating results, such as revenue growth and earnings
- Anticipated levels of capital expenditures for fiscal year 2018 and beyond
- Current or future volatility in market conditions
- Our belief that we have sufficient liquidity to fund our business operations during the next twelve months
- Strategy for customer retention, growth, product development, market position, financial results and reserves
- Strategy for risk management

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- The extent to which we are successful in gaining new long-term relationships with customers or retaining significant existing customers and the level of service failures that could lead customers to use competitors' services.
- Our ability to improve our current credit rating with our vendors and the impact on our raw materials and other costs and competitive position of doing so.
- The impact of losing our intellectual property protections or the loss in value of our intellectual property.
- Changes in customer demand.

- The adequacy of our cash flow and earnings and other conditions which may affect our ability to timely service our debt obligations.
- The occurrence of hostilities, political instability or catastrophic events.
- Such other factors as discussed throughout Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in this report, and throughout Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2017.

Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

The following discussion and analysis should be read in conjunction with our Condensed financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management. This information should also be read in conjunction with our audited historical financial statements which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission on March 29, 2018.

Background Overview

Nocopi Technologies, Inc. develops and markets specialty reactive inks for applications in the large educational and toy products market. We also develop and market technologies for document and product authentication, which we believe can reduce losses caused by fraudulent document reproduction or by product counterfeiting and/or diversion. We derive our revenues primarily from licensing our technologies on an exclusive or non-exclusive basis to licensees who incorporate our technologies into their product offering and from selling products incorporating our technologies to the licensees or to their licensed printers.

Unless the context otherwise requires, all references to the **Company**, **we**, **our** or **us** and other similar terms mean Nocopi Technologies, Inc., a Maryland corporation.

Results of Operations

Our Company's revenues are derived from (a) royalties paid by licensees of our technologies, (b) fees for the provision of technical services to licensees and (c) from the direct sale of (i) products incorporating our technologies, such as inks, security paper and pressure sensitive labels, and (ii) equipment used to support the application of our technologies, such as ink-jet printing systems. Royalties consist of guaranteed minimum royalties payable by our 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.

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

- a. License fees for the use of our technology and royalties with guaranteed minimum amounts are recognized at a point in time when the term begins;
- b. Product sales are recognized at the time of the transfer of goods to customers at an amount that the Company expects to be entitled to in exchange for these goods, which is at the time of shipment; and
- c. Fees for technical services are recognized at the time of the transfer of services to customers at an amount that the Company expects to be entitled to in exchange for the services, which is when the service has been rendered.

We believe that, as fixed cost reductions beyond those we have achieved in recent years may not be achievable, our 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 amount of our Company's revenues and the mix among the various sources of revenue are subject to substantial fluctuation. We have 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 our Company's total revenue, revenue mix and overall financial performance. Such changes may result from a substantial customer's product development delays, engineering changes, changes in product marketing strategies, production requirements and the like. In addition, certain customers have, from time to time, sought to renegotiate certain provisions of their license agreements and, when our Company agrees to revise such terms, revenues from the customer may be affected.

Revenues for the first quarter of 2018 were \$425,400 compared to \$341,400 in the first quarter of 2017, an increase of \$84,000, or approximately 25%. Licenses, royalties and fees increased by \$16,100, or approximately 10%, in the first quarter of 2018 to \$174,900 from \$158,800 in the first quarter of 2017. The increase in licenses, royalties and fees is due primarily to higher royalty revenue received from two licensees offset in part by lower royalty revenue received from a licensee. There can be no assurances that the marketing and product development activities of our Company's licensees or other businesses in the entertainment and toy products market will produce a significant increase in revenues for our 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 \$67,900, or approximately 37%, to \$250,500 in the first quarter of 2018 from \$182,600 in the first quarter of 2017. Sales of ink increased in the first quarter of 2018 compared to the first quarter of 2017 due primarily to higher ink shipments to the third party authorized printers used by two of our Company's major licensees in the entertainment and toy products market offset in part by lower ink shipments to our Company's licensees in the retail receipt and document fraud market. In the first quarter of 2018, our Company derived revenues of approximately \$369,300 from our Company's licensees and their authorized printers in the entertainment and toy products market compared to revenues of approximately \$282,500 in the first quarter of 2017.

Our Company's gross profit increased to \$308,200, or approximately 72% of gross revenues, in the first quarter of 2018 from \$248,200, or approximately 73% of gross revenues, in the first quarter of 2017. Licenses, royalties and fees have historically carried a higher gross profit than product and other sales, which generally consist of either 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.

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 these sources as well as our Company's overall gross profit. The gross profit from licenses, royalties and fees decreased to approximately 86% in the first quarter of 2018 from approximately 87% in the first quarter of 2017.

The gross profit of product and other sales, expressed as a percentage of revenues, 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. Primarily due to higher sales of inks and other products and a favorable product mix in the first quarter of 2018 compared to the first quarter of 2017, there was a higher gross profit from product and other sales of approximately 63% of revenues in the first quarter of 2018 compared to a gross profit of approximately 60% of revenues in the first quarter of 2017.

Research and development expenses of \$37,100 in the first quarter of 2018 were comparable to \$36,400 in the first quarter of 2017.

Sales and marketing expenses increased to \$70,100 in the first quarter of 2018 from \$60,900 in the first quarter of 2017 due primarily to higher commission expense on the higher level of revenues in the first quarter of 2018 compared to the first quarter of 2017.

General and administrative expenses increased in the first quarter of 2018 to \$102,700 compared to \$90,700 in the first quarter of 2017 due primarily to higher legal and patent related expenses in the first quarter of 2018 compared to the first quarter of 2017.

Other income (expenses) in the first quarter of 2018 and 2017 included interest on convertible debentures held by nine investors and, in the first quarter of 2017, interest on an unsecured loan from an individual. Also included in other income (expenses) is accretion of debt discounts in the first quarter of 2017 related to the extension of the maturity dates of \$33,300 of convertible debentures.

The higher net income of \$95,800 in the first quarter of 2018 compared to \$44,000 in the first quarter of 2017 resulted primarily from a higher gross profit on a higher level of revenues in the first quarter of 2018 compared to the first quarter of 2017 and no accretion of debt discounts in the first quarter of 2018 as there was in the first quarter of 2017 offset in part by higher operating expenses in the first quarter of 2018 compared to the first quarter of 2017.

Plan of Operation, Liquidity and Capital Resources

During the first quarter of 2018, our Company's cash decreased to \$346,400 at March 31, 2018 from \$360,400 at December 31, 2017. During the first quarter of 2018, our Company used \$14,000 to fund its operating activities.

During the first quarter of 2018, our Company's revenues increased approximately 25% primarily as a result of higher sales of ink to the authorized printers of our Company's licensees in the entertainment and toy products market and higher royalty revenues from a licensee in the entertainment and toy products market.

Our total overhead expenses increased in the first quarter of 2018 compared to the first quarter of 2017 and our Company's interest expense decreased in the first quarter of 2018 compared to the first quarter of 2017. As a result of these factors, our Company generated net income of \$95,800 in the first quarter of 2018 compared to \$44,000 in first quarter of 2017. Our Company had negative operating cash flow of \$14,000 during the first quarter of 2018. At March 31, 2018, our Company had positive working capital of \$394,800 and stockholders' equity of \$407,100. For the full year of 2017, our Company had net income of \$381,200 and had positive operating cash flow of \$177,500. At December 31, 2017, our Company had positive working capital of \$201,100 and stockholders' equity of \$215,200.

Our Company has \$128,300 of convertible debentures outstanding that are due during the third quarter of 2018. These borrowings allowed our Company to remain in operation through late 2016 when our Company's cash flow increased significantly.

We may need to obtain additional capital in the future to support the working capital requirements associated with our existing revenue base and to fund potential operating losses that could occur if our licensees are unable to at least maintain current levels of sales of products utilizing our Company's technologies. We cannot assure you that we will be successful in obtaining sufficient additional capital, or if we do so, that the additional capital will enable our Company to continue to operate profitably in the future and develop new revenue sources to have a material positive effect on our Company's operations and cash flow. Without additional investment, we may be forced to cease operations at an undetermined time in the future if we are unable to sustain revenues at levels approximating revenues achieved in recent years.

We continue to maintain a cost containment program including curtailment, where possible, of discretionary research and development and sales and marketing expenses.

Our 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 our Company has developed in the entertainment and toy products market. This includes two licensees that have been marketing products incorporating the Company's technologies since 2012. These two licensees maintain a significant presence in the entertainment and toy products market and are well known and highly regarded participants in this market. We anticipate that these two licensees will expand their current offerings that incorporate our technologies and will introduce and market new products that will incorporate our technologies available to them under their license agreements with our Company. We will continue to develop various applications for these licensees. We also plan to expand our licensee base in the entertainment and toy market. We currently have additional licensees marketing or developing products incorporating our technologies in certain geographic and niche markets of the overall entertainment and toy products market.

Our 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. We will continue to adjust our production and technical staff as necessary and, subject to available financial resources, invest in capital equipment needed to support potential growth in ink production requirements beyond our current capacity. Additionally, we will pursue opportunities to market our current technologies in specific security and non-security markets. There can be no assurances that these efforts will enable our Company to generate additional revenues and positive cash flow.

Our Company has received and continues to seek additional capital, in the form of debt, equity or both, to support our working capital requirements and to provide funding for other business opportunities. We cannot assure you that we will be successful in raising additional capital, or that such additional capital, if obtained, will enable our Company to generate additional revenues and positive cash flow.

As previously stated, we generate a significant portion of our total revenues from licensees in the entertainment and toy products market. These licensees generally sell their products through retail outlets. In the future, 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, our revenues, results of operations and liquidity may be negatively impacted as they were in earlier years.

Recently Adopted Accounting Pronouncements

As of March 31, 2018 and for the period then ended, there were no recently adopted accounting pronouncements with the exception of our adoption of ASC 606 that had a material effect on our Company's financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

As of March 31, 2018, there are no recently issued accounting standards not yet adopted which would have a material effect on our Company's financial statements.

Off-Balance Sheet Arrangements

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our Company's management, with the participation of our Company's Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2018. Based on this evaluation, our Company's Principal Executive Officer and Principal Financial Officer concluded that, as of March 31, 2018, our Company's disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by our Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our Company's management, including our Company's Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION**Item 6. Exhibits**

The following exhibits are included herein:

| Exhibit No. | Description of Exhibit | Location |
|--------------------|--|-----------------|
| 31.1 | <u>Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, executed by the Principal Executive Officer of the Company.</u> | Filed herewith |
| 31.2 | <u>Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, executed by the Principal Financial Officer of the Company.</u> | Filed herewith |
| 32.1 | <u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Principal Executive Officer and the Principal Financial Officer of the Company.</u> | Filed herewith |
| 101 | XBRL | |

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: May 14, 2018

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

DATE: May 14, 2018

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

EXHIBIT INDEX

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