NOCOPI TECHNOLOGIES INC/MD/
Form 10QSB
November 14, 2007

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United States Securities and Exchange Commission
Washington, D.C. 20549
Form 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2007

o **TRANSITION REPORT UNDER 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 small business issuer as specified in its charter)

MARYLAND	87-0406496
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

9C Portland Road, West Conshohocken, PA 19428

(Address of principal executive offices)

(610) 834-9600

(Issuer s telephone number)

Check whether the issuer has (1) 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 þ No o

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of November 1, 2007: Common stock, par value $.01 per share: 52,275,837 shares.

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Nocopi Technologies, Inc.
Statements of Operations*
(unaudited)

	Three Months ended September 30 2007	Three Months ended September 30 2006	Nine Months ended September 30 2007	Nine Months ended September 30 2006
Revenues				
Licenses, royalties and fees	$ 174,400	$ 84,400	$ 301,000	$ 200,200
Product and other sales	312,600	198,600	777,100	356,500
	487,000	283,000	1,078,100	556,700
Cost of sales				
Licenses, royalties and fees	37,600	32,200	81,700	76,800
Product and other sales	142,900	112,600	366,600	206,900
	180,500	144,800	448,300	283,700
Gross profit	306,500	138,200	629,800	273,000
Operating expenses				
Research and development	40,500	36,000	119,400	108,400
Sales and marketing	75,000	46,200	173,800	110,600
General and administrative (exclusive of legal expenses)	42,300	59,500	135,100	167,700
Legal expenses	11,200	7,700	36,600	28,500
	169,000	149,400	464,900	415,200
Earnings (loss) from operations	137,500	(11,200)	164,900	(142,200)
Other income (expenses)				
Reversal of accrued expenses	166,200		166,200	
Interest income	2,300		3,500	200
Interest, bank charges and financing cost	(1,700)	(3,800)	(5,400)	(6,000)
	166,800	(3,800)	164,300	(5,800)
Earnings (loss) before income taxes	304,300	(15,000)	329,200	(148,000)
Income taxes	4,900		4,900	
Net earnings (loss)	$ 299,400	$ (15,000)	$ 324,300	$ (148,000)
Net earnings (loss) per common share				
Basic	$ .01	$ (.00)	$ .01	$ (.00)

Diluted	$ .01	$ (.00)	$ .01	$ (.00)
Weighted average common shares outstanding				
Basic	52,275,837	51,316,190	52,012,521	51,070,255
Diluted	53,504,353	51,316,190	53,324,628	51,070,255

*** The accompanying notes are an integral part of these financial statements.**

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Nocopi Technologies, Inc.
Balance Sheet*
(unaudited)

		September 30 2007
Assets		
Current assets		
Cash and cash equivalents	$	216,600
Accounts receivable less $20,000 allowance		321,500
Inventory		55,100
Prepaid and other		42,800
Total current assets		636,000
Fixed assets		
Leasehold improvements		71,200
Furniture, fixtures and equipment		499,000
		570,200
Less: accumulated depreciation		543,700
		26,500
Total assets	$	662,500
Liabilities and Stockholders Equity		
Current liabilities		
Demand loans	$	29,000
Accounts payable		395,300
Accrued expenses		129,800
Accrued income taxes		4,900
Deferred revenue		5,000
Total current liabilities		564,000
Stockholders equity		
Common stock, $.01 par value		
Authorized - 75,000,000 shares		
Issued and outstanding 52,275,837 shares		522,800
Paid-in capital		12,008,500
Accumulated deficit		(12,432,800)
		98,500
Total liabilities and stockholders equity	$	662,500

* **The accompanying notes are an integral part of these financial statements.**

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

	Nine Months ended September 30	
	2007	**2006**
Operating activities		
Net earnings (loss)	$ 324,300	($148,000)
Adjustments to reconcile net earnings (loss) to cash used in operating activities		
Depreciation and amortization	15,200	13,700
Reversal of accrued expenses	(166,200)	
Compensation expense stock option grants		32,000
	173,300	(102,300)
(Increase) decrease in assets		
Accounts receivable	(229,500)	(124,200)
Arbitration settlement receivable	50,000	50,000
Inventory	3,200	(43,900)
Prepaid and other	(18,000)	12,600
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(14,700)	(19,100)
Accrued income taxes	4,900	
Deferred revenue	(800)	(1,500)
	(204,900)	(126,100)
Net cash used in operating activities	(31,600)	(228,400)
Investing activities		
Additions to fixed assets	(17,600)	(4,600)
Net cash used in investing activities	(17,600)	(4,600)
Financing activities		
Issuance of common stock	282,700	173,100
Proceeds from demand and other short-term loans	7,000	91,000
Repayments of demand and other short-term loans	(77,000)	
Net cash provided by financing activities	212,700	264,100
Increase in cash and cash equivalents	163,500	31,100
Cash and cash equivalents at beginning of year	53,100	4,300
Cash and cash equivalents at end of period	$ 216,600	$ 35,400

Supplemental Disclosure of Cash Flow Information Interest paid	$ 5,500	
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Deferred financing cost		
Prepaid and other		$ 7,200
Additional paid-in capital		($7,200)

* **The accompanying notes are an integral part of these financial statements.**

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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 2006 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 2006 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 nine months ended September 30, 2007 may not be necessarily indicative of the operating results expected for the full year.

Note 2. Stock Based Compensation

On January 1, 2006, the Company adopted SFAS 123(R) using the modified prospective method as permitted under SFAS 123(R). Under this transition method, compensation cost recognized in the first quarter of 2006 includes compensation cost for all share-based payments granted prior to but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123. In accordance with the modified prospective method of adoption, the Company s results of operations and financial position for prior periods have not been restated.

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award.

There were no stock options granted during the nine months ended September 30, 2007. On April 30, 2006, under the Company s directors option plan (the Plan), options to acquire 100,000 shares of the Company s common stock were granted to each of the then four members of the Board of Directors of the Company, including one member who is also an executive officer of the Company, at $.215 per share. Under the terms of the Plan, the options vested on January 1, 2007 and will expire five years from the date of grant. In accordance with the fair value method as described in accounting requirements of SFAS No. 123(R), expense of approximately $48,000 was recognized during 2006. The Board of Directors deferred the issuance of 100,000 options to purchase common stock of the Company that were to be granted to each Director on April 30, 2007 under the Plan. There were no stock options exercised or cancelled during the nine months ended September 30, 2007.

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The following table summarizes the Company s stock option plans at September 30, 2007 and December 31, 2006:

	Number of Shares	Exercise Price	Weighted Average Exercise Price	
Outstanding, December 31, 2006	1,750,000	$.10 to $.22	$	.16
Outstanding, September 30, 2007	1,750,000	$.10 to $.22	$	.16
Exercisable, September 30, 2007	1,750,000	$.10 to $.22	$	.16
Weighted average remaining contractual life (years)	2.29			

Note 3. Going Concern

Since its inception, the Company has incurred significant losses and, as of September 30, 2007, had accumulated losses of $12,432,800. For the years ended December 31, 2006 and 2005, the Company s losses from operations were $175,800 and $213,800, respectively. The Company had earnings from operations of $137,500 and $164,900 in the third quarter and first nine months of 2007, respectively, as significant revenues from new licensees were realized. At September 30, 2007, the Company had positive working capital of $72,000. Maintaining profitability and achieving positive cash flow depends on the Company s ability to sustain these increases in revenues and gross profits from its traditional and newly developed revenue sources. There can be no assurances that the Company will be able to maintain sufficient revenues and gross profits to sustain profitability and achieve positive cash flow from operations in the future.

During the first nine months of 2007, the Company raised $282,700 in a valid private placement whereby 568,193 shares of the Company s common stock were sold to nine non-affiliated individual investors and 20,833 were sold to a Director of the Company. The Company is not actively seeking additional investment at the present time due to the improvements in its revenues during 2007. Management of the Company believes that maintenance of revenues at current levels will allow it to continue in operation for the foreseeable future. There can be no assurances that revenues will be sustained at levels achieved in the first nine months of 2007.

Note 4. Demand and Other Short-Term Loans

During the first nine months of 2007, the Company received an unsecured loan of $7,000 from Michael A. Feinstein, M.D., its Chairman of the Board. During the first nine months of 2007, the Company repaid loans in the amount of $77,000 provided by four individuals in 2005 and 2006 including the $15,000 loan from Herman Gerwitz, a Director. At September 30, 2007, the Company had unsecured loans outstanding in the amount of $29,000 from Dr. Feinstein bearing interest at 7% per annum.

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Note 5. Stockholders Equity

During the first nine months of 2007, the Company sold 568,193 shares of its common stock to nine non-affiliated individual investors and 20,833 shares to Philip B. White, a Director, for a total of $282,700 pursuant to a valid private placement.

Note 6. Income Taxes

The Company recorded a provision of $4,900 for estimated federal corporate alternative minimum taxes for the three months and nine months ended September 30, 2007. Management of the Company believes that it will be able to use available net operating loss carryforwards to offset federal and state income taxes, other than the federal corporate alternative minimum tax, in 2007. There is no income tax benefit for the three months and nine months ended September 30, 2006 since management has determined that the realization of the net deferred tax asset is not assured and has created a valuation allowance for the amount of such benefits.

Note 7. Earnings (loss) per Share

In accordance with SFAS No. 128, *Earnings per Share*, basic earnings (loss) per common share is computed using net earnings divided by the weighted average number of common shares outstanding for the periods presented. Diluted earnings per common share assumes that outstanding common shares were increased by shares issuable upon exercise of those stock options and warrants for which the market price exceeds the exercise price, less shares that could have been purchased by the Company with related proceeds. Because the Company reported a net loss for the three and nine months ended September 30, 2006, common stock equivalents, consisting of stock options and warrants, were anti-dilutive for those periods.

Note 8. Major Customer Information

The Company s largest non-affiliate customers accounted for approximately 90% and 85% of revenues in the third quarter and first nine months of 2007, respectively, approximately 83% and 72% of revenues in the third quarter and first nine months of 2006, respectively and approximately 93% of accounts receivable at September 30, 2007. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company also maintains allowances for potential credit losses.

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Item 2.

NOCOPI TECHNOLOGIES, INC.
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 the Condensed Financial Statements and related notes included elsewhere in this report as well as with our audited Financial Statements and Notes thereto for the year ended December 31, 2006 included in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 16, 2007.

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 Risk Factors. 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, as well as 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;

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b) Product sales are recognized upon shipment of products, when the price is fixed or determinable and collectibility 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) collectibility is reasonably assured.

The Company believes that, as fixed costs 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 2007 were $487,000 compared to $283,000 in the third quarter of 2006, a 72% increase. Licenses, royalties and fees increased by $90,000, or 107%, to $174,400 in the third quarter of 2007 from $84,400 in the third quarter of 2006. The increase in licenses, royalties and fees is due primarily to the inception during the second quarter of 2007 of a license arrangement with one new licensee and an increase in licensing revenues from a licensee signed in 2006 in the Entertainment and Toy Products business, offset in part by the termination or non-renewal of four licenses during 2006 and 2007. Product and other sales were $312,600 in the third quarter of 2007 compared to $198,600 in the third quarter of 2006, a 57% increase due primarily to sales of the Company s inks to the new licensee in the Entertainment and Toy Products business and higher sales of security paper during the quarter. For the first nine months of 2007, revenues were $1,078,100, 94% higher than revenues of $556,700 in the first nine months of 2006. Licenses, royalties and fees of $301,000 in the first nine months of 2007 increased by $100,800, or 50%, from $200,200 in the first nine months of 2006 due primarily to licensing revenues from two licensees in the Entertainment and Toy products business, one of which is new and one of which was signed in 2006, offset in part by the termination or non-renewal of four licenses during 2006 and 2007. Product sales were $777,100 in the first nine months of 2007 compared to $356,500 in the first nine months of 2006, a 118% increase. The increase in product sales reflects higher sales of inks, primarily to licensees in the Entertainment and Toy Products business, and higher sales of the Company s line of security papers during the first nine months of 2007 compared to the first nine months of 2006. The Company derived approximately $376,000 and $783,400 in the third quarter and first nine months of 2007, respectively, in revenues from licensees and their printers in the Entertainment and Toy Products market compared to approximately $150,000 and $210,000 in the third quarter and first nine months of 2006, respectively. The Company believes that revenues from licensees in the Entertainment and Toy Products market will grow in future periods.

The Company s gross profit increased to $306,500, or 63% of revenues, in the third quarter of 2007 from $138,200, or 49% of revenues, in the third quarter of 2006. 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 higher gross profit, expressed both in absolute dollars and as a percentage of revenues, in the third quarter of 2007 compared to the third quarter of 2006 resulted principally from increases in revenues represented by licenses, royalties and fees and from product sales. Additional gross profit improvement in the third quarter of 2007 compared to the third quarter of 2006 results from the higher level of ink sales that were available to absorb fixed production costs and to the product mix.

For the first nine months of 2007, the gross profit was $629,800, or 58% of revenues compared to 273,000, or 49% of revenues, in the first nine months of 2006. The increase in the gross profit in absolute dollars and as a percentage of revenues in the first nine months of 2007 compared to the first nine months of 2006 resulted from the same factors as the quarter to quarter increase.

Research and development expenses of $40,500 and $119,400 in the third quarter and first nine months of 2007 represent nominal increases from $36,000 and $108,400 in the third quarter and first nine months of 2006.

Sales and marketing expenses increased to $75,000 in the third quarter of 2007 from $46,200 in the third quarter of 2006 and to $173,800 in the first nine months of 2007 from $110,600 in the first nine months of 2006. The increases primarily reflect higher commission expense on the higher level of revenues in the third quarter and first nine months of 2007 compared to the third quarter and first nine months of 2006, increased sales promotion expenses and the engagement of a sales consultant late in the third quarter of 2007 to market its existing line of security papers, inks and ink-jet products as well as a new application developed by the Company in response to recent legislation requiring tamper-resistant features in prescription pads used by physicians nationwide in state Medicaid programs.

General and administrative expenses (exclusive of legal expenses) decreased by $17,200 to $42,300 in the third quarter of 2007 from $59,500 in the third quarter of 2006. The decrease in the third quarter of 2007 compared to the third quarter of 2006 is due primarily to $16,000 in expenses recorded in the third quarter of 2006 in connection with the issuance of 400,000 options to purchase shares of the Company s common stock to members of the Company s Board of Directors in April 2006. The Board of Directors deferred the April 2007 issuance of options. For the first nine months, general and administrative expenses (exclusive of legal expenses) decreased by $32,600 to $135,100 in 2007 from $167,700 in 2006 due primarily to the deferral of the stock option issuance.

Legal expenses were $11,200 in the third quarter of 2007 compared to $7,700 in the third quarter of 2006. Legal expenses for the nine months of 2007 increased to $36,600 from $28,500 in the first nine months of 2006. The increases relate to a higher level of legal requirements in connection with licensing activity, the private placement of the Company s common stock and other matters.

Other income (expense) in the third quarter and first nine months of 2007 includes the reversal of $166,200 of accrued consulting fees that the Company, with legal counsel, has determined to be no longer statutorily payable. Also included is interest income on funds invested, interest expense on demand and other short-term loans and, in 2006, amortization of financing costs associated with the issuance of warrants related to short-term loans received in the third quarter of 2006.

The net earnings of $299,400 and $324,300 in the third quarter and first nine months of 2007, respectively, compared to the net loss of $15,000 and $148,000 in the third quarter and first nine months of 2006, respectively, results primarily from a higher gross profit on the higher level of revenues, lower compensation expense resulting from the deferral of the Board of Directors options and the reversal of accrued expenses that are no longer statutorily payable offset in part by higher commissions.

Plan of Operation, Liquidity and Capital Resources

The Company s cash and cash equivalents increased to $216,600 at September 30, 2007 from $53,100 at December 31, 2006. During the first nine months of 2007, the Company received $282,700 from the sale of 589,026 shares of its common stock, received demand loans of $7,000 and used $31,600 to fund operations, $77,000 to repay loans and $17,600 to fund capital purchases.

While the Company has added new licensees in the Entertainment and Toy Market over the past year and has obtained significant increases in product sales from these licensees, its working capital requirements have increased primarily in support of inventory and receivables related to these sales; however, beginning in the second quarter of 2007, the Company achieved significant increases in revenues and recorded net earnings of $99,300 and $299,400 in the second and third quarters of 2007, respectively. During the first nine months of 2007, the Company raised $282,700 in a valid private placement whereby 568,193 shares of the Company s common stock were sold to nine non-affiliated individual investors and 20,833 were sold to a Director of the Company. The Company also received $7,000 in demand loans from its Chairman of the Board and the final installment payment of $50,000 in accordance with the settlement agreement of its arbitration with Euro-Nocopi, S.A. in the first nine months of 2007. The Company is not actively seeking additional investment at the present time due to the improvements in its revenues during 2007. Management of the Company believes that maintenance of revenues at current levels will allow it to continue in operation for the foreseeable future. There can be no assurances that revenues will be sustained at levels achieved in the first nine months of 2007.

While the investment received during the first nine months of 2007 and improvement in operations have positively impacted the Company s liquidity situation, it continues to maintain a cost containment program including curtailment of discretionary research and development and sales and marketing expenses, where possible. During the first nine months of 2007, it increased employment by one individual, acquired capital equipment to increase its ink production capacity and, late in the third quarter of 2007, it engaged a sales agent to market its existing line of security papers, inks and ink-jet products as well as a new application developed by the Company in response to recent legislation requiring tamper-resistant features in prescription pads

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used by physicians nationwide in state Medicaid programs. During the third quarter of 2007, the Company negotiated an extension to the lease at its current premises for five years through March 2013. Minimum annual lease payments under this lease extension are: $29,600 - 2008; $39,900 - 2009; $40,900 - 2010; $42,200 - 2011; $43,400 - 2012 and $10,900 - 2013.

The Company s plan of operation for the twelve months beginning with the date of this quarterly report consists of capitalizing on the specific business relationships it has recently developed in the Entertainment and Toy Products business through ongoing applications development for these licensees. The Company believes that these opportunities can provide increases in revenues and it will continue to increase its production and technical staff as necessary and invest in capital equipment needed to support the anticipated ink production requirements. Additionally, the Company will pursue opportunities to market its current technologies in specific security and non-security markets. The Company may raise additional capital, in the form of debt, equity or both, if needed, to support its working capital requirements as well as to provide funding for other business opportunities.

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 our annual report on Form 10-KSB filed on April 16, 2007:

Dependency on Major Customer. Our recent growth in revenues and return of profitability has resulted primarily from relationships developed with a major customer and two of its operating companies. We also have substantial receivables from these businesses. While multi-year licenses exist with these organizations, we are dependent on our licensees to develop new products and markets that will generate increases in our licensing and product revenues. The inability of these licensees to maintain at least current levels of sales of products utilizing our technologies could adversely affect our operating results and cash flow.

Inability to Obtain Raw Materials and Products for Resale. Our adverse financial condition had required us to significantly defer payments due vendors who supply raw materials and other components of our security inks, security paper that we purchase for resale, professional and other services. As a result, we are required to pay cash in advance of shipment to certain of our suppliers. Delays in shipments to customers caused by our inability to obtain materials on a timely basis and the possibility that certain current vendors may permanently discontinue to supply us with needed products could impact our ability to service our customers, thereby adversely affecting our customer and licensee relationships. We believe that the recent capital investment has allowed us to improve our relationships with our vendors and professional service providers. There are no assurances that we will be able to continue to maintain our vendor relationships in an acceptable manner.

Uneven Pattern of Quarterly and Annual Operating Results. Our revenues, which are derived primarily from licensing and royalties, are difficult to forecast due to the long sales cycle of our technologies, the potential for customer delay or deferral of implementation of our technologies, the size and timing of inception of individual license agreements, the success of our 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 our revenue base is not substantial, delays in finalizing license contracts, implementing the technology to initiate the revenue stream and customer ordering decisions can have a material adverse effect on our quarterly and annual revenue expectations and, as our operating expenses are substantially fixed, income expectations will be subject to a similar adverse outcome. As licensees for the entertainment and toy products are added, the unpredictability of our revenue stream may be further impacted.

Volatility of Stock Price. The market price for our common stock has historically experienced significant fluctuations and may continue to do so. We have, since our inception, operated at a loss and have not produced revenue levels traditionally associated with publicly traded companies. Our common stock is not listed on a national or regional securities exchange and, consequently, we receive limited publicity regarding our business achievements and prospects. Additionally, securities analysts and traders do not extensively follow our stock and our stock is also thinly traded. Our 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 our common stock.

Intellectual Property. We rely on a combination of protections provided under applicable international patent, trademark and trade secret laws. We also rely on confidentiality, non-analysis and licensing agreements to establish and protect our rights in our proprietary technologies. While we actively attempt to protect these rights, our technologies could possibly be compromised through reverse engineering or other means. In addition, our ability to enforce our intellectual property rights through appropriate legal action has been and will continue to be limited by our adverse liquidity. There can be no assurances that we will be able to protect the basis of our technologies from discovery by unauthorized third parties or to preclude unauthorized persons from conducting activities that infringe on our rights. Our adverse liquidity situation has also impacted our ability to obtain patent protection on our intellectual property and to maintain protection on previously issued patents. We made payments of approximately $800 for patent maintenance fees due during 2007. There can be no assurances that we will be able to continue to prosecute new patents and maintain issued patents. As a result, our customer and licensee relationships could be adversely affected and the value of our technologies and intellectual property (including their value upon our liquidation) could be substantially diminished.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 is effective for fiscal years beginning after December 15, 2006, and was effective for us beginning with the first quarter of 2007, and the provisions of FIN 48 were applied to all tax positions under Statement No. 109 upon initial adoption. The cumulative effect of applying the provisions of this interpretation will be reported as an adjustment to the opening

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balance of retained earnings for that fiscal year. The Company adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not require an adjustment to the opening balance of retained earnings at January 1, 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurement. SFAS No. 157 is effective for fiscal years after November 15, 2007 and interim periods within those fiscal years. The Company does not believe that the adoption of the provisions of SFAS No. 157 will materially impact its financial statements and footnote disclosure.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and will become effective for the Company beginning with the first quarter of 2008. The Company has not yet determined whether it will adopt this statement and its impact on its financial statements and footnote disclosures.

Off-Balance Sheet Arrangements

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

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Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company s disclosure controls and procedures are designed to provide reasonable assurance that material information required to be included in its periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the relevant SEC rules and forms. 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 Rule 13a-15. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this report, that the Company s disclosure controls and procedures are effective.

(b) Changes in Internal Control

As of the date of this report, there have been no changes in the Company s internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

In July 2007, the Company negotiated an extension to the lease at 9 Portland Road, West Conshohocken, PA 19428, its current premises, for five years through March 2013. Monthly rent under this lease extension ranges from $3,290 to $3,646.

Item 6. Exhibits

(a) Exhibits

10.16 Amendment dated July 18, 2007 to Lease Agreement dated March 19, 2003 relating to premises at 9 Portland Road, West Conshohocken, PA 19428.

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 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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: November 14, 2007	/s/ Michael A. Feinstein, M.D. Michael A Feinstein, M.D. Chairman of the Board & Chief Executive Officer
DATE: November 14, 2007	/s/ Rudolph A. Lutterschmidt Rudolph A. Lutterschmidt Vice President & Chief Financial Officer

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