

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

NOCOPI TECHNOLOGIES INC/MD/
Form 10QSB
May 15, 2003

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2003.

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

For the transition period from _____ to _____

Commission file number 0-20333

NOCOPI TECHNOLOGIES, INC.

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

MARYLAND

87-0406496

(State or other jurisdiction
of incorporation or organization)

(IRS Employer Identification No.)

537 Apple Street, West Conshohocken, PA 19428

(Address of principal executive offices)

(610) 834-9600

(Issuer's telephone number)

Check whether the issuer has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
--- ---

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

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒
--- ---

NOCOPI TECHNOLOGIES, INC.

INDEX

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

Part I. FINANCIAL INFORMATION	PAGE
Item 1. Financial Statements	
Statements of Operations Three Months ended March 31, 2003 and March 31, 2002	1
Balance Sheet March 31, 2003	2
Statements of Cash Flows Three Months ended March 31, 2003 and March 31, 2002	3
Notes to Financial Statements	4 - 6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7 - 12
Part II. OTHER INFORMATION	13
Signatures	14

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Nocopi Technologies, Inc. Statements of Operations (unaudited)

	Three Months ended March 31 2003	2002
	-----	-----
Revenues		
Licenses, royalties and fees	\$ 92,500	\$ 134,500
Product and other sales	52,400	67,400
	-----	-----
	144,900	201,900
Cost of sales		
Licenses, royalties and fees	35,800	50,100
Product and other sales	31,600	48,200
	-----	-----
	67,400	98,300
	-----	-----
Gross profit	77,500	103,600
Operating expenses		
Research and development	49,200	66,100
Sales and marketing	86,200	78,500
General and administrative (exclusive of legal expenses)	83,800	109,700
Legal expenses	76,000	74,000
	-----	-----
	295,200	328,300

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

Loss from operations	(217,700)	(224,700)
Other income (expenses)		
Interest income	100	100
Interest and bank charges	(3,400)	(700)
	(3,300)	(600)
Net loss	(\$221,000)	(\$225,300)
	=====	=====
Basic and diluted loss per common share	(\$.00)	(\$.01)
Weighted average common shares outstanding	45,972,241	41,438,908

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

1

Nocopi Technologies, Inc. Balance Sheet (unaudited)

	March 31 2003

Assets	
Current assets	
Cash and cash equivalents	\$ 15,500
Accounts receivable less allowances	36,200
Prepaid and other	31,800

Total current assets	83,500
Fixed assets	
Leasehold improvements	39,500
Furniture, fixtures and equipment	476,200

	515,700
Less: accumulated depreciation	503,800

	11,900
Other assets	
Investment in unconsolidated affiliate - net	110,600

Total assets	\$ 206,000
	=====

Liabilities and Stockholders' Deficiency

Current liabilities	
Demand loans	\$ 160,400
Accounts payable	726,900
Accrued expenses	289,100
Deferred revenue	120,700

Total current liabilities	1,297,100

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

Stockholders' deficiency

Common stock, \$.01 par value	
Authorized - 75,000,000 shares	
Issued and outstanding - 45,972,241 shares	459,700
Paid-in capital	11,141,100
Accumulated deficit	(12,691,900)

	(1,091,100)

Total liabilities and stockholders' deficiency	\$ 206,000
	=====

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

2

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

	Three Months ended March 31	
	2003	2002
	-----	-----
Operating Activities		
Net loss	(\$221,000)	(\$225,300)
Adjustment to reconcile net loss to cash used in operating activities		
Depreciation	2,100	4,500
	-----	-----
	(218,900)	(220,800)
(Increase) decrease in assets		
Accounts receivable	2,900	1,100
Prepaid and other	(800)	(3,200)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	93,300	114,000
Deferred revenue	-	(3,700)
	-----	-----
	95,400	108,200
	-----	-----
Cash used in operating activities	(123,500)	(112,600)
Financing Activities		
Issuance of common stock, net	-	139,000
	-----	-----
Cash provided by financing activities	-	139,000
	-----	-----
Increase (decrease) in cash and cash equivalents	(123,500)	26,400
Cash and cash equivalents - beginning of period	139,000	100
	-----	-----
Cash and cash equivalents - end of period	\$ 15,500	\$ 26,500
	=====	=====

The accompanying notes are an integral part of these

financial statements.

3

NOCOPI TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Financial Statements

The accompanying unaudited condensed financial statements have been prepared by Nocopi Technologies, Inc. (the Company). These statements include all adjustments (consisting only of normal recurring adjustments) which management believes necessary for a fair presentation of the statements and have been prepared on a consistent basis using the accounting policies described in the summary of Accounting Policies included in the Company's 2002 Annual Report on Form 10-KSB. Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the accompanying disclosures are adequate to make the information presented not misleading. The Notes to Financial Statements included in the 2002 Annual Report on Form 10-KSB should be read in conjunction with the accompanying interim financial statements. The interim operating results for the three months ended March 31, 2003 may not be necessarily indicative of the operating results expected for the full year.

Note 2. Affiliate

The Company organized Euro-Nocopi, S.A. (Euro) in 1994 to market the Company's technologies in Europe under an exclusive license arrangement. Euro was capitalized through a European private placement. The Company holds an approximately 18% interest in Euro. During 2000, there arose between Euro and the Company a number of areas of conflict and dispute, leading each party to the licensing arrangement to assert informally that the other was in breach of its obligations under that arrangement. The parties initially sought to resolve their differences by negotiating a transaction in which Euro would have purchased from the Company its entire equity interest as well as the paid-up European rights to the Company's technologies. These negotiations terminated without agreement early in December 2000. Following the termination of the transaction negotiations, the Company was informed by Euro that it had adopted resolutions to liquidate and dissolve. In mid-December 2000, the Company terminated its license agreement with Euro in accordance with its terms and discontinued the provision of support (including the sale of proprietary inks) to Euro and its customers. As a result of the license termination the technological dependency of Euro on the Company ceased and the Company was no longer permitted to account for its investment in Euro on the equity method. Accordingly, the Company, effective October 1, 2000, changed its method of accounting for its investment in Euro to the cost method and recorded the carrying value at that date as the cost of its investment.

4

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

Euro responded to the license termination by denying that the Company's action was permissible or effective, and by asserting a claim that, as a result of alleged breaches of the licensing agreement by the Company, it was entitled to a royalty-free license to exploit the Company's technologies in Europe.

Promptly thereafter, Euro commenced an action before a court in Paris, France in which it sought the entry of an order, in the nature of a preliminary injunction, to compel the Company to honor the license agreement pending judicial or arbitral resolution of the dispute between the parties under the license agreement. In the French litigation, Euro did not seek an adjudication on the merits of the underlying dispute. Certain shareholders of Euro subsequently joined in the proceedings commenced by Euro.

In March 2001, the Emergency Judge hearing the action issued a decision denying the relief requested by Euro and the shareholders. The decision, which does not purport to be a final adjudication of the merits of the controversy but only of Euro's request for preliminary relief, held that Euro was not entitled to the requested order because the Company had validly terminated the licensing arrangement in mid-December, and also ordered Euro to pay into escrow the approximately \$125,000 that the Company claimed was due and owing under the licensing arrangement.

In March 2001, Euro commenced an arbitration proceeding before the American Arbitration Association in New York, NY against the Company. In this proceeding, Euro has not asserted a claim for damages but has asserted a claim for an award in the nature of a declaratory judgment to the effect that, because the Company has (allegedly) breached the license agreement, Euro is entitled to a perpetual royalty-free license to exploit the Company's technologies in Europe. The Company has filed a response denying that Euro is entitled to the relief requested, asserting that it has validly terminated Euro's license agreement, and seeking damages for Euro's breaches of the licensing agreement and its continuing use of the licensed technologies. The parties are currently engaged in discussions relating to the settlement of the arbitration, and all related matters, and the arbitration hearing on the merits has been postponed pending such discussions.

In March 2001 certain shareholders of Euro filed suit in a court in Paris, France against certain current and former officers and directors of the Company and against a licensee of the Company. The Company is not named as a defendant in the suit. The suit seeks damages in excess of \$7 million from the defendants for various alleged acts of oppression, self-dealing and fraud in connection with the organization and capitalization of Euro, the management of that company and the Company's management of its relationship with that company. The defendants have denied any liability to the plaintiffs and have sought indemnification from the Company in connection with the lawsuit. The Company has advanced certain costs of defense for the benefit of the named defendants. The Company believes that its Directors and Officers Insurance carrier may provide reimbursement of certain expenditures for legal fees (above the policy deductible) in accordance with the terms of the insurance policy.

Note 3. Going Concern

Since its inception, the Company has incurred significant losses and, as of March 31, 2003, had accumulated losses of \$12,691,900. For the

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

years ended December 31, 2002 and 2001, the Company's net losses were \$924,500 and \$828,600, respectively. In addition, the Company had negative working capital of \$1,213,600 at March 31, 2003. The Company may incur further operating losses and experience negative cash flow in the future. Achieving profitability and positive cash flow depends on the Company's ability to generate and sustain significant increases in revenues and gross profits from its traditional business. There can be no assurances that the Company will be able to generate sufficient revenues and gross profits to achieve and sustain profitability and positive cash flow in the future.

The receipt of \$200,000 in late 2002 from the sale of 3,333,333 shares of the Company's common stock and an additional demand loan of \$3,000 in late April 2003 from the Company's Chairman of the Board has permitted the Company to continue in operation to the current date. Management of the Company believes that, to survive, it must obtain additional capital immediately both to fund continuing operating deficits and to fund investments needed to increase its operating revenues to levels that will sustain its operations. There can be no assurances that the Company will be successful in obtaining sufficient additional capital, or if it does, that the additional capital will enable the Company to improve its business so as to have a material positive effect on the Company's operations and cash flow. The Company believes that without substantial immediate investment, it will be forced to cease operations during the second quarter of 2003. Further, the Company requires investment to fund the ongoing arbitration with Euro-Nocopi, S.A. There are no assurances that, even if funding, for which the Company has no commitments and only limited prospects, is arranged, the Company will prevail in the arbitration.

Note 4. Income Taxes

There is no income tax benefit for the losses for the three months ended March 31, 2003 and March 31, 2002 since Management has determined that the realization of the net deferred tax asset is not assured and has created a valuation allowance for the entire amount of such benefits.

6

Item 2.

NOCOPI TECHNOLOGIES, INC.

Management's Discussion and Analysis of Financial Condition and Results of Operation

Forward-Looking Information

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

The information in this discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Such factors include those described in "Uncertainties That May

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

Affect the Company, its Operating Results and Stock Price." The forward-looking statements included in this report may prove to be inaccurate. In light of the significant uncertainties inherent in these forward-looking statements, you should not consider this information to be a guarantee by us or any other person that our objectives and plans will be achieved. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results (expressed or implied) will not be realized.

Results of Operations

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

Because the Company has a relatively high level of fixed costs, its operating results are substantially dependent on revenue levels. Because revenues derived from licenses and royalties carry a much higher gross profit margin than other revenues, operating results are also substantially affected by changes in revenue mix.

7

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 first quarter of 2003 were \$144,900 compared to \$201,900 in the first quarter of 2002, a 28% decrease. Licenses, royalties and fees decreased by \$42,000, or 31%, in the first quarter of 2003 to \$92,500 from \$134,500 in the first quarter of 2002. The reduction in licenses, royalties and fees is due primarily to the termination during the April 2002 to March 2003 period of license arrangements with four licensees offset in part by license and royalty revenues received from two new licensees acquired during the same period. Product sales were \$52,400 in the first quarter of 2003 compared to \$67,400 in the first quarter of 2002, a decrease of \$15,000 or 22%. The decrease in product sales reflects lower levels of sales of the Company's line of security papers in the first quarter of 2003 compared to the first quarter of 2002.

The Company's gross profit decreased to \$77,500 in the first quarter of 2003 or 53% of revenues from \$103,600 or 51% of revenues in the first quarter of 2002. Licenses, royalties and fees have historically carried a higher gross profit than product sales, which generally consist of supplies or other

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

manufactured products which incorporate the Company's technologies or equipment used to support the application of its technologies. These items (except for inks which are manufactured by the Company) are generally purchased from third-party vendors and resold to the end-user or licensee and carry a lower gross profit than licenses, royalties and fees. The first quarter 2003 gross profit was negatively impacted by the decline in revenues from licenses, royalties and fees; however, the Company's expenditures for paper purchased for resale and production costs incurred in the manufacture of the Company's line of security inks were lower in the first quarter of 2003 compared to the first quarter of 2002.

Research and development expenses were \$49,200 in the first quarter of 2003 compared to \$66,100 in the first quarter of 2002. The decrease relates primarily to the termination at December 31, 2002 of a consulting agreement with a former executive officer and director of the Company.

Sales and marketing expenses increased to \$86,200 in the first quarter of 2003 from \$78,500 in the first quarter of 2002. The increase reflects the engagement of a member of the partnership that acquired 3,333,333 shares of the Company's common stock in late 2002 as a sales and marketing consultant in accordance with the terms of the subscription agreement offset in part by lower travel and sales promotion expenses.

General and administrative expenses (exclusive of legal expenses) decreased by \$25,900 in the first quarter of 2003 to \$83,800 from \$109,700 in the first quarter of 2002. The decrease relates to lower audit fees and costs involved in the acquisition of new patents and the maintenance of existing patents in the first quarter of 2003 compared to the first quarter of 2002.

8

Legal expenses were \$76,000 in the first quarter of 2003 compared to \$74,000 in the first quarter of 2002. Significant legal expenses have been incurred since early 2001 as a result of the arbitration proceedings and other litigation in both the United States and France between the Company and Euro-Nocopi, S.A., its former European licensee. While the arbitration was scheduled to be heard by the arbitrators in December 2002, the arbitration has been suspended at the request of the parties as attorneys seek to negotiate a settlement. There can be no assurances that a settlement acceptable to both parties will be concluded.

Other income (expense) includes interest income on funds invested and, in 2003, interest expense on the Demand Loans.

The net loss of \$221,000 in the first quarter of 2003 approximated the net loss of \$225,300 in the first quarter of 2002.

Plan of Operation, Liquidity and Capital Resources

The Company's cash and cash equivalents decreased to \$15,500 at March 31, 2003 from \$139,000 at December 31, 2002. The cash was used to fund operations over the three-month period.

The loss of a number of customers during the past three years and the termination of the Company's exclusive European licensee in 2000 has had a material adverse effect on the Company's results of operations and upon its liquidity and capital resources. The Company believes that the conditions arising from these circumstances raise substantial doubts about the Company's ability to continue as a going concern. The receipt of funds in conjunction with the sale of 3,333,333 shares of the Company's common stock in late 2002 and an additional demand loan of \$3,000 in late April 2003 from the Company's Chairman

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

of the Board has permitted it to continue in operation through the current date. In addition, the Company's increasing illiquidity has forced it to follow a policy of deferring payment to its vendors, even where such deferral has not been agreed to by the vendors. As a result, the Company's trade payables have increased to \$726,900 at March 31, 2003 from \$649,200 at December 31, 2002. Accordingly, the Company is currently in default of the payment terms extended by a significant number of its suppliers, professional service providers and other vendors, some of which have suspended providing products and services and/or credit to the Company and may require payment in advance. Management of the Company believes that, to survive, it must obtain additional capital immediately to reduce its substantial obligations, fund continuing operating deficits and fund investment needed to increase its operating revenues to levels that will sustain its operations. If the Company fails to significantly increase its cash balances through further equity investment, for which it has no commitments and only very limited prospects, it will be forced to cease operations due to a lack of cash during the second quarter of 2003. There can be no assurances that the Company will be able to secure additional equity investment before it is forced to cease operations.

9

The Company, in response to the ongoing adverse liquidity situation, has maintained a cost reduction program including staff reductions, where possible, and curtailment of discretionary research and development and sales and marketing expenses.

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

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

Inability to Continue in Operation Without Immediate New Equity Investment. The Company had a negative working capital of \$1,213,600 at March 31, 2003 and experienced negative cash flow from operations of \$123,500 in the three months ended March 31, 2003. Additionally, it experienced negative cash flow from operations of \$432,500 in the year ended December 31, 2002. Management does not believe the Company can significantly improve its negative cash flow in the near future. Since year-end 2001, the Company continued to experience negative cash flow and, at the present time is in need of immediate equity or other investment; otherwise, it will be forced to cease operations due to a lack of cash during the second quarter of 2003. It is uncertain whether the Company's assets will retain any value if the Company ceases operations. There are no assurances that the Company will be able to secure additional equity investment before it is forced to cease operations.

Continuing Euro-Nocopi Litigation. The Company is currently expending sums representing a substantial portion of its revenues for professional fees and costs relating to legal disputes between the Company and its former affiliate, Euro-Nocopi, S.A. as described under the heading "Legal Proceedings" in the Company's Annual Report on Form 10-KSB. Management believes that successful resolution of the disputes between it and Euro-Nocopi is necessary for the Company to be able to license its technologies to European users. If Euro-Nocopi succeeds in asserting its rights to a paid-up European license, it will be entitled to license European end users of the Company's technologies with no payment of license fees (by Euro-Nocopi or such users) to the Company, and the Company will not be entitled to grant licenses or collect license fees from European users or to grant worldwide licenses. The Company cannot continue to pay the costs of this dispute unless it can obtain substantial new capital investment, of which there can be no assurances, and the Company will not prevail in this dispute if it cannot continue to pay such costs. Even if the Company is able to continue its dispute with Euro-Nocopi through resolution, or

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

complete the settlement discussions currently underway, there can be no assurance that the resolution will be a successful one for the Company or that it will have a material positive effect on the financial condition of the Company.

Possible Inability to Develop New Business. Even if the Company is able to raise cash through additional capital investment or otherwise, it must quickly improve its operating cash flow. Because the Company has already significantly reduced its operating expenses, Management believes that any significant improvement in the Company's cash flow must result from increases in its revenues from traditional sources and from new revenue sources. The Company's ability to develop new revenues may depend on the extent of both its marketing activities and its research and development activities. There are no assurances that the resources the Company, even with additional investment, can devote to marketing and to research and development will be sufficient to increase the Company's revenues to levels resulting in positive cash flow.

10

Inability to Obtain Raw Materials and Products for Resale. The Company's adverse financial condition has required it to significantly defer payments due vendors who supply raw materials and other components of the Company's security inks, security paper that the Company purchases for resale and professional and other services. As a result, the Company is on credit hold with certain of its suppliers and is required to pay cash in advance of shipment to others. Delays in shipments to customers caused by the Company's inability to obtain materials on a timely basis and the possibility that certain current vendors may permanently discontinue to supply the Company with needed products could impact the Company's ability to service its customers and adversely affect its customer and licensee relationships. Management of the Company believes that, without significant capital investment in the very near term, the Company will not be able to maintain acceptable relationships with its vendors and professional service providers. There are no assurances that the Company will be able to secure sufficient capital investment to maintain its vendor accounts on satisfactory terms.

Uneven Pattern of Quarterly and Annual Operating Results. The Company's revenues, which are derived primarily from licensing and royalties, are difficult to forecast due to the long sales cycle of the Company's technologies, the potential for customer delay or deferral of implementation of the Company's technologies, the size and timing of inception of individual license agreements, the success of the Company's licensees and strategic partners in exploiting the market for the licensed products, modifications of customer budgets, and uneven patterns of royalty revenue and product orders. As the Company's revenue base is not substantial, delays in finalizing license contracts, implementing the technology to initiate the revenue stream and customer ordering decisions can have a material adverse effect on the Company's quarterly and annual revenue expectations and, as the Company's operating expenses are substantially fixed, income expectations will be subject to a similar adverse outcome.

Volatility of Stock Price. The market price for the Company's common stock has historically experienced significant fluctuations and may continue to do so. The Company has, since its inception, operated at a loss and has not produced revenue levels traditionally associated with publicly traded companies. The Company's common stock is not listed on a national or regional securities exchange and, consequently, the Company receives limited publicity regarding its business achievements and prospects, nor do securities analysts and traders extensively follow it. The 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

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

performance. Such fluctuations may adversely affect the market price of the Company's common stock.

11

Intellectual Property. The Company relies on a combination of protections provided under applicable international patent, trademark and trade secret laws. It also relies on confidentiality, non-analysis and licensing agreements to establish and protect its rights in its proprietary technologies. While the Company actively attempts to protect these rights, the Company's technologies could possibly be compromised through reverse engineering or other means. In addition, the Company's ability to enforce its intellectual property rights through appropriate legal action has been and will continue to be limited by the Company's adverse liquidity. There can be no assurances that the Company will be able to protect the basis of its technologies from discovery by unauthorized third parties or to preclude unauthorized persons from conducting activities that infringe on the Company's rights. The Company's adverse liquidity situation has also impacted its ability to obtain patent protection on its intellectual property and to maintain protection on previously issued patents. The Company has been advised by its patent counsel that patent maintenance fees approximating \$20,000 will be due during 2003. The Company has not yet made a decision on keeping any or all of these patents in force. There can be no assurances that the Company will be able to continue to prosecute new patents and maintain issued patents. As a result, the Company's customer and licensee relationships could be adversely affected and the value of the Company's technologies and intellectual property (including their value upon a liquidation of the Company) could be substantially diminished.

12

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certificate of Chief Executive Officer and Chief Financial

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

Officer Pursuant to Sections 302 and 906 of the
Sarbanes-Oxley Act of 2002.

- (b) No Current Reports on Form 8-K have been filed by the Registrant
during the quarter ended March 31, 2003.

13

SIGNATURES

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

NOCOPI TECHNOLOGIES, INC.

DATE: May 15, 2003

Michael A. Feinstein, M.D.

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

DATE: May 15, 2003

Rudolph A. Lutterschmidt

Rudolph A. Lutterschmidt
Vice President & Chief Financial Officer

14