NOCOPI TECHNOLOGIES INC/MD/
Form 10-Q
August 23, 2010

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

(Mark One)

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

For the quarterly period ended June 30, 2010.

or

o **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	87-0406496
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9C Portland Road, West Conshohocken, PA	19428
(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 þ No o

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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ
		(Do not check if a smaller reporting company)	

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. 56,643,708 shares of common stock, par value $.01, as of August 16, 2010

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 June 30		Six Months ended June 30	
	2010	**2009**	**2010**	**2009**
Revenues				
Licenses, royalties and fees	$ 57,700	$ 95,300	$ 111,700	$ 165,800
Product and other sales	94,500	92,200	133,200	135,300
	152,200	187,500	244,900	301,100
Cost of revenues				
Licenses, royalties and fees	19,100	23,300	39,800	43,300
Product and other sales	57,300	66,200	104,300	113,400
	76,400	89,500	144,100	156,700
Gross profit	75,800	98,000	100,800	144,400
Operating expenses				
Research and development	35,100	40,900	77,100	83,100
Sales and marketing	34,700	95,700	69,100	169,600
General and administrative	74,500	88,300	175,000	197,900
	144,300	224,900	321,200	450,600
Net loss from operations	(68,500)	(126,900)	(220,400)	(306,200)
Other income (expenses)				
Reversal of accounts payable		69,100		69,100
Interest expense, bank charges and financing cost	(2,600)	(800)	(5,800)	(1,000)
	(2,600)	68,300	(5,800)	68,100
Net loss	$ (71,100)	$ (58,600)	$ (226,200)	$ (238,100)
Basic and diluted net loss per common share	$ (.00)	$ (.00)	$ (.00)	$ (.00)
Basic and diluted weighted average common shares outstanding	55,441,208	52,541,045	55,206,752	52,413,441

*

See accompanying notes to these financial statements.

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Nocopi Technologies, Inc.
Balance Sheets*

	June 30 2010 (unaudited)	December 31 2009 (audited)
Assets		
Current assets		
Cash	$ 59,100	$ 37,200
Accounts receivable less $5,000 allowance for doubtful accounts	98,700	140,400
Inventory	46,300	66,100
Prepaid and other	33,000	35,200
Total current assets	237,100	278,900
Fixed assets		
Leasehold improvements	72,500	72,500
Furniture, fixtures and equipment	184,900	184,900
	257,400	257,400
Less: accumulated depreciation and amortization	246,400	242,200
	11,000	15,200
Total assets	$ 248,100	$ 294,100
Liabilities and Stockholders Deficiency		
Current liabilities		
Line of credit	$ 100,000	$ 100,000
Demand loans	50,500	
Accounts payable	271,600	268,400
Accrued expenses	136,500	106,900
Deferred revenue	75,000	13,900
Total current liabilities	633,600	489,200
Stockholders deficiency		
Common stock, $.01 par value		
Authorized 75,000,000 shares		
Issued and outstanding		
2010 55,581,208 shares; 2009 54,972,296 shares	555,800	549,700
Paid-in capital	12,317,100	12,287,400
Accumulated deficit	(13,258,400)	(13,032,200)
Total stockholders deficiency	(385,500)	(195,100)
Total liabilities and stockholders deficiency	$ 248,100	$ 294,100

* **See accompanying notes to these financial statements.**

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

	Six Months ended June 30	
	2010	**2009**
Operating Activities		
Net loss	$ (226,200)	$ (238,100)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	4,200	4,600
Compensation expense stock option grants	3,000	7,900
Financing cost warrant grants	2,200	
Reversal of accounts payable		(69,100)
	(216,800)	(294,700)
Decrease in assets		
Accounts receivable	41,700	51,600
Inventory	19,800	15,700
Prepaid and other	2,200	13,800
Increase in liabilities		
Accounts payable and accrued expenses	32,800	57,600
Deferred revenue	61,100	7,200
	157,600	145,900
Net cash used in operating activities	(59,200)	(148,800)
Financing Activities		
Net borrowings under line of credit		75,000
Proceeds from demand loans	50,500	
Issuance of common stock	30,600	41,000
Net cash provided by financing activities	81,100	116,000
Increase (decrease) in cash and cash equivalents	21,900	(32,800)
Cash at beginning of year	37,200	87,200
Cash at end of period	$ 59,100	$ 54,400
Supplemental disclosure of cash flow information Cash paid for interest	$ 1,900	$ 400

* **See accompanying notes to 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 2009 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 2009 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 and six months ended June 30, 2010 may not be necessarily indicative of the operating results expected for the full year.

The Company follows FASB ASC 220 in reporting comprehensive income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Since the Company has no items of other comprehensive income, comprehensive income (loss) is equal to net income (loss).

Note 2. Going Concern

Since its inception, the Company has incurred significant losses and, as of June 30, 2010, had accumulated losses of $13,258,400. For the six months ended June 30, 2010, the Company had a net loss from operations of $220,400 and negative cash flow from operations of $59,200. At June 30, 2010, the Company had negative working capital of $396,500 and a stockholders deficiency of $385,500. For the year ended December 31, 2009, the Company s net loss from operations was $455,000. Due in part to the recession that has and is continuing to negatively impact the country s economy, the Company, which is substantially dependent on its licensees to generate licensing revenues, 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 and new product lines. There can be no assurances that the Company will be able to generate sufficient revenues and gross profits to return to and sustain profitability and positive cash flow in the future.

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During the six months ended June 30, 2010, the Company received unsecured loans totaling $50,500 from four individuals, of which $7,500 was lent by Herman M. Gerwitz, a Director. In the second quarter of 2010, the Company raised $30,600 in a private placement exempt from registration under section 4(2) of the Securities Act of 1933, as amended, whereby 460,000 shares of the Company s common stock were sold to two non-affiliated individual investors and 148,912 shares of the Company s common stock were sold to a Director of the Company. During 2009, the Company raised $162,000 in this private placement whereby 2,426,042 shares of the Company s common stock were sold to six non-affiliated individual investors and 260,417 were sold to a Director of the Company. Receipt of funds from these individuals, along with borrowings during 2009 under its line of credit with a bank, has permitted the Company to continue in operation to the current date. During 2009, the Company borrowed the entire $100,000 under the line of credit, obtained in 2008, to fund its operating activities. In August 2010, the Company accepted an offer by the bank to repay the outstanding loan balance in forty-eight equal monthly installments, plus interest, beginning in October 2010. Management of the Company believes that it will need additional capital in the immediate future both to fund investments needed to increase its operating revenues to levels that will sustain its operations and to fund operating deficits that it anticipates will continue until revenue increases from traditional and new product lines can be realized. There can be no assurances that the Company will be successful in obtaining sufficient additional capital, or if it does, that the additional capital will enable the Company to impact its revenues so as to have a material positive effect on the Company s operations and cash flow. The Company believes that without additional capital, whether in the form of debt, equity or both, it may be forced to cease operations in the near future.

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.

In February 2009, the Board of Directors of the Company granted options to acquire 200,000 shares of its common stock to five employees of the Company, options to acquire 75,000 shares of its common stock to two consultants and options to acquire 50,000 shares of its common stock to an officer of the Company at $.12 per share. The options vested in February 2010 and expire five years from the date of grant. In accordance with the fair value method as described in the accounting requirements of FASB ASC 718, expense of approximately $22,900 was recognized over the vesting period of the options through February 2010 to account for the cost of services received by the Company in exchange for the grant of stock options. There was no expense recognized during the three months ended June 30, 2010. During the three months ended June 30, 2009, compensation expense of approximately $6,000 was recognized. During the six months ended June 30, 2010 and June 30, 2009, compensation expense of approximately $3,000 and $7,900, respectively, was recognized. There was no unrecognized portion of expense at June 30, 2010. The Company s stock option plans terminated prior to 2010 and no further stock options can be granted under the plans; however, stock options granted before the termination dates may be exercised through their expiration dates.

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The following table summarizes all stock option activity of the Company since December 31, 2009:

	Number of Shares	Exercise Price	Weighted Average Exercise Price
Outstanding options December 31, 2009	1,325,000	$ .10 to $.45	$ .24
Canceled	280,000	$.10 and $.12	$ .11
Outstanding options June 30, 2010	1,045,000	$ .11 to $.45	$ .27
Weighted average remaining contractual life (years)	2.20		
Exercisable options June 30, 2010	1,045,000	$ .11 to $.45	$ .27
Weighted average remaining contractual life (years)	2.20		

Note 4. Line of Credit

In 2008, the Company negotiated a $100,000 revolving line of credit with a bank to provide a source of working capital. The line of credit is secured by all the assets of the Company and bears interest at the bank s prime rate plus .5%. At June 30, 2010, the interest rate applicable to the Company s line of credit was 3.75%. The line of credit is subject to an annual review and quiet period. Until the third quarter of 2010, the Company had been required to pay interest only on borrowings under the line of credit. During the year ended December 31, 2009, the Company borrowed the entire $100,000 available under the line of credit. In the third quarter of 2010, the Company was notified by the bank that the line of credit was not being renewed and was offered repayment terms, which the Company has accepted, to repay the outstanding loan balance in forty-eight equal monthly installments of $2,083, plus interest at the bank s prime rate plus .5%, beginning in October 2010.

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Note 5. Demand Loans

In March 2010, the Company received unsecured loans totaling $40,500 from three individuals of which $7,500 was lent by Herman M. Gerwitz, a Director. The loans bear interest at 8% and are payable on demand. The loans were used to finance the Company s working capital requirements. Additionally, the Company granted warrants to purchase 40,500 shares of common stock of the Company at $.0703 per share to these three individuals. The warrants expire in five years. A financing cost of approximately $1,800 representing the fair value of the warrants was charged to income in the first quarter of 2010. The fair value of the warrants was determined using the Black-Scholes pricing model with the following assumptions: expected life-5 years; interest rate-2.65%; volatility-77% and dividend yield-0. In May 2010, the Company received an unsecured loan of $10,000 from an individual. The loan bears interest at 8% and is payable on demand. The loan was used to finance the Company s working capital requirements. Additionally, the Company granted warrants to purchase 10,000 shares of common stock of the Company at $.06 per share to this individual. The warrants expire in five years. A financing cost of approximately $400 representing the fair value of the warrants was charged to income in the second quarter of 2010. The fair value of the warrants was determined using the Black-Scholes pricing model with the following assumptions: expected life-5 years; interest rate 2.11%; volatility-78% and dividend yield-0. The acceptance of these unsecured loans constitutes a violation of certain covenants under the Company s line of credit which gives the lender certain rights including requiring the Company to repay the entire outstanding loan balance of $100,000. Such a requirement by the bank could have a material adverse effect on the Company s financial condition. Management of the Company intends to cure this violation.

The following table summarizes the Company s warrant activity since December 31, 2009:

	Number of Shares	Exercise Price	Weighted Average Exercise Price
Outstanding, December 31, 2009	47,000	$ .21 to $.27	$ .23
Warrants issued	50,500	$.06 and $.07	$ .07
Outstanding, June 30, 2010	97,500	$ .06 to $.27	$ .14
Weighted average remaining contractual life (years)	3.02		
Exercisable warrants, June 30, 2010	97,500	$ .06 to $.27	$ .14
Weighted average remaining contractual life (years)	3.02		

Note 6. Stockholders Deficiency

During the second quarter of 2010, the Company sold 460,000 shares of its common stock to two non-affiliated individuals and 148,912 shares of its common stock to Philip B. White, a Director, for a total of $30,600 pursuant to a private placement. During the second quarter of 2009, the Company sold 640,625 shares of its common stock to two non-affiliated individuals for a total of $41,000 pursuant to the private placement.

Note 7. Other Income (Expenses)

Other income (expenses) included, for the three months and six months ended June 30, 2009, the reversal of $69,100 of accounts payable related to invoices received from 2001 through 2003 from a business for consulting services that the Company, with legal counsel, had determined to be no longer statutorily payable as the statute of limitations to

bring a claim had expired.

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Note 8. Income Taxes

There is no income tax benefit for the losses for the three months and six months ended June 30, 2010 and June 30, 2009 because the Company has determined that the realization of the net deferred tax asset is not assured. The Company has created a valuation allowance for the entire amount of such benefits.

There was no change in unrecognized tax benefits during the period ended June 30, 2010 and there was no accrual for uncertain tax positions as of June 30, 2010.

Tax years from 2006 through 2009 remain subject to examination by U.S. federal and state jurisdictions.

Note 9. Loss per Share

In accordance with FASB ASC 260, Earnings per Share, basic earnings (loss) per common share is computed using net earnings (loss) 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 months and six months ended June 30, 2010 and June 30, 2009, common stock equivalents, consisting of stock options and warrants, were anti-dilutive.

Note 10. 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 June 30		Six Months ended June 30	
	2010	2009	2010	2009
Customer A	28%	17%	30%	18%
Customer B	16%	34%	19%	36%
Customer C	10%	8%	12%	10%
Customer D	29%	30%	18%	25%

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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:

	June 30 2010	December 31 2009
Customer A	35%	19%
Customer B	24%	59%
Customer C	5%	
Customer D	19%	13%

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 June 30		Six Months ended June 30	
	2010	2009	2010	2009
North America	$ 108,200	$ 131,800	$ 200,900	$ 226,700
Other	44,000	55,700	44,000	74,400
	$ 152,200	$ 187,500	$ 244,900	$ 301,100

Note 11. Subsequent Events

In August 2010, the Company sold 1,000,000 shares of its common stock to three non-affiliated investors and 62,500 shares of its common stock to Herman M. Gerwitz, a Director, for a total of $34,000 in a private placement.

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Item 2.

NOCOPI TECHNOLOGIES, INC.

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

Forward-Looking Information

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, regarding, among other things, anticipated improvements in operations, the Company s plans, earnings, cash flow and expense estimates, strategies and prospects, both business and financial. All statements other than statements of current or historical fact contained in this report are forward-looking statements. The words believe, expect, anticipate, should, plan, will, may, intend, estimate, potential, continue and similar expressions, as they relate to the Company, are intended to identify forward-looking statements.

The Company has based these forward-looking statements largely on its current expectations and projections about future events, financial trends, market opportunities, competition, and the adequacy of the Company s available cash resources, which the Company believes may affect its financial condition, results of operations, business strategy and financial needs. This Form 10-Q also contains forward-looking statements attributed to third parties. All such statements can be affected by inaccurate assumptions, including, without limitation, with respect to risks, uncertainties, anticipated operating efficiencies, new business prospects and the rate of expense increases. In light of these risks, uncertainties and assumptions, the forward-looking statements in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. For these reasons, and because of the uncertainty relating to the current financial crisis in today s economic environment and the potential reduction in demand for the Company s products, you should not consider this information to be a guarantee by the Company or any other person that its objectives and plans will be achieved. When you consider these forward-looking statements, you should keep in mind the Risk Factors and other cautionary statements set forth in this Item 2 and elsewhere in this Form 10-Q. The Company s forward-looking statements speak only as of the date made. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Financial Statements and related notes included elsewhere in this report as well as with the Company s audited Financial Statements and Notes thereto for the year ended December 31, 2009 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2010, and keeping in mind this entire cautionary statement regarding forward-looking information.

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Results of Operations

The Company s revenues are derived from (i) royalties paid by licensees of the Company s technologies, (ii) fees for the provision of technical services to licensees and (iii) the direct sale of (a) products incorporating the Company s technologies, such as inks, security paper and pressure sensitive labels, and (b) 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;

b) Product sales are recognized (i) upon shipment of products; (ii) when the price is fixed or determinable and (iii) when collectability 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) collectability is reasonably assured.

The Company believes that, as fixed cost 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.

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Revenues for the second quarter of 2010 were $152,200 compared to $187,500 in the second quarter of 2009, a decrease of $35,300, or approximately 19%. Licenses, royalties and fees decreased by $37,600, or approximately 39%, to $57,700 in the second quarter of 2010 from $95,300 in the second quarter of 2009. The decrease in licenses, royalties and fees is due primarily to declines in licensing revenues from three licensees in the entertainment and toy products business offset in part by higher royalties from licensees in the retail receipt and document fraud market, several of which were added during 2009. In the first quarter of 2010, the Company was informed that one licensee in the entertainment and toy products market was discontinuing a product line incorporating technology licensed under a license agreement, ceasing ink purchases related to the these products and selling off its remaining inventory of these products. As a result of this licensee s decision, no royalties were derived from products sold under this license in the second quarter of 2010. In the second quarter of 2009, royalties of $17,300 were received from this licensee. Additionally, second quarter 2010 revenues generated from a second licensee in the entertainment and toy products market, whose license contains guaranteed minimum annual royalties, declined compared to the second quarter of 2009. Late in the second quarter of 2010, the Company concluded a multi-year license, containing guaranteed minimum royalties, with a new licensee in the entertainment and toy products market that it believes will generate future revenues, including ink sales, for the Company. Also, in the second quarter of 2010, the Company established a relationship with a large international business that, in the third quarter of 2010, will result in the introduction of entertainment and toy products incorporating the Company s technologies in South America. There can be no assurances that the marketing and product development activities of these new, as well existing, licensees and other businesses in the entertainment and toy products market will produce significant increased revenues for the Company in future periods, 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 $2,300, or approximately 2%, to $94,500 in the second quarter of 2010 from $92,200 in the second quarter of 2009. Sales of ink increased in the second quarter of 2010 compared to the second quarter of 2009 reflecting increases in security ink sales to the Company s licensees in the retail receipt and document fraud market offset in part by lower ink sales to the third party printer of the Company s major licensee in the entertainment and toy products business. The Company derived revenues of approximately $70,100 from licensees and their printers in the entertainment and toy products market in the second quarter of 2010 compared to approximately $121,100 in the second quarter of 2009. Sales of security paper declined in the second quarter of 2010 compared to the second quarter of 2009.

For the first six months of 2010, revenues were $244,900, $56,200, or approximately 19%, lower than revenues of $301,100 in the first six months of 2009. Licenses, royalties and fees of $111,700 in the first six months of 2010 were $54,100, or approximately 33%, lower than $165,800 in the first six months of 2009, due primarily to the same factors that caused the revenue decline in the second quarter of 2010 compared to the second quarter of 2009. Product and other sales declined by $2,100, or approximately 2%, to $133,200 in the first six months of 2010 from $135,300 in the first six months of 2009. As in the second quarter of 2010, higher sales of security ink to the Company s licensees in the retail receipt and document fraud market in the first six months of 2010 compared to the first six months of 2009 were offset in part by lower ink sales to the third party printer of the Company s major licensee in the entertainment and toy products business. The Company derived revenues of approximately $96,100 from licensees and their printers in the entertainment and toy products market in the first six months of 2010 compared to approximately $185,600 in the first six months of 2009. The Company experienced a decline in sales of its security papers in the first six months of 2010 compared to the first six months of 2009.

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The Company s gross profit decreased to $75,800 in the second quarter of 2010 or approximately 50% of revenues from $98,000 in the second quarter of 2009 or approximately 52% of revenues. Licenses, royalties and fees have historically carried a higher gross profit than product and other 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 lower gross profit than licenses, royalties and fees. The lower gross profit in the second quarter of 2010 compared to the second quarter of 2009 results primarily from lower gross revenues from licenses, royalties and fees and product and other sales in the second quarter of 2010 compared to the second quarter of 2009.

For the first six months of 2010, the gross profit was $100,800, or approximately 41% of revenues, compared to $144,400, or approximately 48% of revenues, in the first six months of 2009. The decrease in the gross profit in absolute dollars and as a percentage of revenues in the first six months of 2010 compared to the first six months of 2009 resulted from lower gross revenues of both licenses, royalties and fees and product and other sales in the first six months of 2010 compared to the first six months of 2009.

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 licenses, royalties and fees as well as the overall gross profit. Primarily due to the decrease in revenues from licenses, royalties and fees in the second quarter of 2010 compared to the second quarter of 2009, the gross profit from licenses, royalties and fees decreased to approximately 67% of revenues from licenses, royalties and fees in the second quarter of 2010 from approximately 76% in the second quarter of 2009 and to approximately 64% of revenues from licenses, royalties and fees in the first six months of 2010 from approximately 74% in the first six months of 2009.

The gross profit, expressed as a percentage of revenues, of product and other sales 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. The gross profit from product and other sales increased to approximately 39% of revenues in the second quarter of 2010 compared to approximately 28% of revenues from product and other sales in the second quarter of 2009 due to higher sales of these products in the second quarter of 2010 compared to the second quarter of 2009, favorable margins on certain products due to both customer mix and raw materials prices and a staff reduction during the second quarter of 2010. For the first six months of 2010, the gross profit, expressed as a percentage of revenues, increased to approximately 22% of revenues from product and other sales compared to approximately 16% of revenues from product and other sales in the first six months of 2009 for the same reasons as the increase in the second quarter of 2010 compared to the second quarter of 2009.

Research and development expenses declined to $35,100 the second quarter of 2010 from $40,900 in the second quarter of 2009 and to $77,100 in first six months of 2010 from $83,100 in first six months of 2009 due primarily to the departure of one employee during the second quarter of 2010.

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Sales and marketing expenses decreased to $34,700 in the second quarter of 2010 from $95,700 in the second quarter of 2009 and to $69,100 in the first six months of 2010 from $169,600 in the first six months of 2009. The decrease in both the second quarter and first six months of 2010 compared to the second quarter and first six months of 2009 is due to the Company s decision in the second half of 2009 to modify its method of marketing its security products to loss prevention departments in retailers. As a result, the Company incurred no consulting fees or business show expense in the second quarter and first six months of 2010 and its travel expense declined in the second quarter and first six months of 2010 compared to the second quarter and first six months of 2009. Additionally, due to the lower level of sales in the second quarter and first six months of 2010 compared to the second quarter and first six months of 2009, commission expense was lower in the second quarter and first six months of 2010 compared to the second quarter and first six months of 2009.

General and administrative expenses decreased to $74,500 in the second quarter of 2010 from $88,300 in the second quarter of 2009 and to $175,000 in the first six months of 2010 from $197,900 in the first six months of 2009 due primarily to lower legal expenses in the second quarter and first six months of 2010 compared to the second quarter and first six months of 2009 as there were lower requirements for these services and lower compensation expense during the second quarter and first six months of 2010 compared to the second quarter and first six months of 2009.

Other income (expenses) included, for the three months and six months ended June 30, 2009, the reversal of $69,100 of accounts payable related to invoices received from 2001 through 2003 from a business for consulting services that the Company, with legal counsel, had determined to be no longer statutorily payable as the statute of limitations to bring a claim had expired. Additionally, the Company incurred higher interest expense and financing costs in the second quarter and first six months of 2010 compared to the second quarter and first six months of 2009 on funds borrowed under its line of credit and, in 2010, from demand loans obtained during 2010.

The net loss of $71,100 in the second quarter of 2010 compared to the net loss of $58,600 in the second quarter of 2009 results primarily from a lower gross profit on a lower level of revenues, no reversal of accounts payable and higher interest and financing cost offset in part by lower sales and marketing expenses and lower compensation expense due to staff reductions in the second quarter of 2010. The Company s lower net loss of $226,200 for the six months ended June 30, 2010 compared to the net loss of $238,100 in the six months ended June 30, 2009 results primarily from lower sales and marketing expenses offset in part by a lower gross profit on a lower level of revenues, no reversal of accounts payable in 2010 and higher interest and financing costs.

Management of the Company does not believe that inflation and changing prices have had a significant effect on its revenues and results of operations during the second quarter and first six months of 2010 and the second quarter and first six months of 2009.

Plan of Operation, Liquidity and Capital Resources

The Company s cash increased to $59,100 at June 30, 2010 from $37,200 at December 31, 2009. During the first six months of 2010, the Company received $30,600 from the sale of 608,912 shares of its common stock, borrowed $50,500 from four individuals and used $59,200 to fund operations.

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During the first six months of 2010, the Company s revenues declined as a result of declines in licensing revenues from its principal licensees in the entertainment and toy products business. This decline was offset somewhat by increases in revenues from its original and new licensees in the retail receipt and document fraud market. In addition, as a result of the Company s decision in the second half of 2009 to modify its method of marketing its security products to loss prevention departments in retailers by marketing these products through licensed printers who serve this market segment, the Company s selling expenses declined in the first half of 2010 compared to the first half of 2009. Additionally, the Company reduced it staff by two individuals in the second quarter of 2010. As the overhead savings more than offset the lower gross profit, the Company recorded a lower net loss of $226,200 in the first half of 2010 compared to $238,100 in the first half of 2009 and had negative operating cash flow of $59,200 during the first half of 2010. The Company s net loss from operations was reduced in the first half of 2010 to $220,400 from $306,200 in the first half of 2009. At June 30, 2010, the Company had negative working capital of $396,500 and a stockholders deficiency of $385,500. For the full year 2009, the Company had a net loss of $389,400 and had negative operating cash flow of $312,000 during the year. At December 31, 2009, the Company had negative working capital of $210,300 and a $195,100 stockholders deficiency. In 2008, the Company secured a $100,000 line of credit with a bank to provide working capital in the future. During the year ended December 31, 2009, the Company borrowed the entire $100,000 available under the line of credit. In August 2010, the Company accepted an offer by the bank to repay the outstanding loan balance in forty-eight equal monthly installments, plus interest, beginning in October 2010. During the first half of 2010, the Company received unsecured loans totaling $50,500 from four individuals. Additionally, the Company, in 2009 and 2010 through the date of this report, has raised $226,600 through the sale of 4,357,871 shares of its common stock. These borrowings and sales of common stock have allowed the Company to remain in operation through the current date. There can be no assurances that the Company will be able to secure sufficient additional funding through investment or borrowings that will allow the Company to fund losses that it presently believes will continue during 2010. The Company believes that without immediate additional investment, it may be forced to cease operations in the near future.

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 developed in the entertainment and toy products business, including a new licensee added in the second quarter of 2010, through ongoing applications development for these licensees. Additionally, the Company anticipates further revenue growth in the retail loss prevention market through increased royalties from and security ink sales to its historical and newly added licensees in this market. The Company believes that these initiatives can provide increases in revenues and it will adjust its production and technical staff as necessary and invest in capital equipment needed to support potential growth in its ink production requirements. The Company has received and continues to seek additional capital, in the form of debt, equity or both to support its working capital requirements. There can be no assurances that the Company will be successful in raising additional capital.

The Company generates a significant portion of its total revenues from licensees in the entertainment and toy products market. A continuation of the slowdown in consumer spending that was experienced during 2009 due to the current negative economic environment may adversely affect the sales of these licensees products that are generally sold through retail outlets over the balance of the year. The Company s revenues, results of operations and liquidity would likewise be negatively impacted as they were during 2009.

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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 the Company s annual report on Form 10-K filed on March 31, 2010:

Access to Capital. The Company anticipates that it will need to raise capital in the immediate future to fund its historical and new business operations. The current crisis in the financial markets has caused serious deterioration in the net worth and liquidity of many investors, including that of potential investors in the Company, and seriously eroded investor confidence in general thereby making it more difficult for the Company to raise capital. If the Company is unable to secure capital in the near future, in the form debt, equity or both, it may be forced to cease operations. There can be no assurances that the Company will be successful in obtaining additional investment in sufficient amounts to fund its ongoing business operations.

Line of Credit. The Company has a $100,000 line of credit with a bank. During the six months ended June 30, 2010 the Company accepted unsecured loans totaling $50,500 from four individuals. The acceptance of these unsecured loans constituted a violation of certain covenants of the Company s line of credit with a bank. Under the terms of the line of credit agreement, this covenant violation is an event of default whereby the bank has certain rights including requiring the Company to repay the entire outstanding loan balance. In August 2010, the Company accepted an offer by the bank to repay the outstanding loan balance of $100,000 in forty-eight equal monthly installments, plus interest, beginning in October 2010. A requirement by the bank for immediate repayment of the entire outstanding loan balance could have a material adverse effect on the Company s financial condition.

Dependency on Major Customer. The Company derives a significant percentage of its revenues through a relationship with a major customer and two of its operating companies. Revenues obtained directly from this customer and indirectly, through its third party printers, equaled approximately 45% of the Company s second quarter 2010 revenues, approximately 37% of the Company s first half 2010 revenues and approximately 56% of the Company s 2009 full year revenues. The Company also has substantial receivables from these businesses. While multi-year licenses exist with these organizations, the Company is dependent on its licensees to develop new products and markets that will generate increases in its licensing and product revenues. The inability of these licensees to maintain at least current levels of sales of products utilizing the Company s technologies could adversely affect the Company s operating results and cash flow. As the Company s licensees are subject to, and have been adversely affected, by economic conditions related to the current economic conditions, the Company s revenues may be adversely impacted. In 2009, the Company entered into a three year license agreement, containing guaranteed minimum annual royalties, commencing January 2010 with this customer covering products sold under previous license agreements with two of the licensee s operating divisions. The agreement contains renewal options. In March 2010, the Company was informed that this customer is discontinuing a product line incorporating technology licensed under a separate license agreement, ceasing ink purchases related to the these products and selling off its remaining inventory of these products. In 2009, the Company s revenues related to this discontinued product line were approximately 7% of the Company s total revenues. There can be no assurances that the recently renewed license will continue in force at the same, or more favorable, terms beyond its current termination date.

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Possible Inability to Develop New Business. While the Company raised cash through additional capital investment, borrowings under its line of credit in 2009 and loans from individuals in 2010, it has limited increases in its operating expenses. Management of the Company believes that any significant improvement in the Company s cash flow must result from increases in 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, both of which are limited. There are no assurances that the resources that the Company can devote to marketing and to research and development will be sufficient to increase its revenues to levels that will enable it to return to and maintain positive operating cash flow in the future.

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 to providers of professional and other services. As a result, the Company is required to pay cash in advance of shipment to certain of its suppliers. Delays in shipments to customers caused by the inability to obtain materials on a timely basis and the possibility that certain current vendors may permanently discontinue supplying the Company with needed products and services could impact the Company s ability to service its customers, thereby adversely affecting its customer and licensee relationships. While receipt of funds through the sale of shares of the Company s common stock and borrowings under the Company s line of credit and from others have allowed the Company to continue in operation to the current date, there can be no assurances that the Company will be able to maintain its vendor relationships in an acceptable manner.

Uneven Pattern of Quarterly and Annual Operating Results. The Company s revenues, which are derived primarily from licensing, royalties and sales of products incorporating its technologies, are difficult to forecast due to the long sales cycle of its technologies, the potential for customer delay or deferral of implementation of its technologies, the size and timing of inception of individual license agreements, the success of its 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. As licensees for the entertainment and toy products markets are added, the unpredictability of the Company s revenue stream may be further impacted.

Volatility of Stock Price. The market price for the Company s common stock has historically experienced significant fluctuations and may continue to do so. From inception, with the exception of 2007, the Company 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, it receives limited publicity regarding its business achievements and prospects. Additionally, securities analysts and traders do not extensively follow the Company s stock and its stock is also thinly traded. The Company s 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 the Company s common stock.

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Intellectual Property. The Company relies on a combination of protections provided under applicable international patent, trademark and trade secret laws. The Company 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, its 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 had been and may continue to be limited by its 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 its rights. The Company s adverse liquidity situation also impacts 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 $2,600 will be due during 2010. The Company intends to keep one of the two affected 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 its technologies and intellectual property (including their value upon liquidation) could be substantially diminished.

Economic Conditions. The Company s revenue is susceptible to changes in general economic conditions and the present global recession that is expected to continue during 2010. Decreasing consumer confidence, further slowdown in consumer spending or other downturn in the U.S. economy as a whole or in any geographic markets from which the Company derives revenue, could substantially impact its sales, liquidity and overall results of operations, as these factors may result in decreased demand for the Company s products from its customers and licensees, and the Company s ability to develop new customers and licensees. Due to the uncertainty surrounding the financial crisis, and the Company s ability to predict the effect such conditions will have on its customers and licensees, the Company cannot predict the scope or magnitude of the negative effect that such an ongoing global financial crisis and economic slowdown will have on it.

Recently Adopted Accounting Pronouncements

In January 2010, FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820), Improving Disclosures about Fair Value Measurements. This update provides amendments to ASC Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. This standard is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This standard is not currently applicable to the Company.

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In January 2010, FASB issued ASU No. 2010-05, Compensation Stock Compensation (ASC Topic 718), Escrowed Share Arrangements and the Presumption of Compensation. This update codifies Emerging Issues Task Force D-110. This standard is not currently applicable to the Company.

In January 2010, FASB issued ASU No. 2010-01, Equity (ASC Topic 505), Accounting for Distributions to Shareholders with Components of Stock and Cash. The update clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected prospectively in earnings per share and is not considered a stock dividend for purposes of ASC Topic 505 and Topic 260, Earnings Per Share. This standard is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. This standard is not currently applicable to the Company.

Recently Issued Accounting Pronouncements Not Yet Adopted

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2009-13 on ASC 605, Revenue Recognition Multiple Deliverable Revenue Arrangement a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 amended guidance related to multiple-element arrangements which requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. The consensus eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances. All entities must adopt the guidance no later than the beginning of their first fiscal year beginning on or after June 15, 2010. Entities may elect to adopt the guidance through either prospective application for revenue arrangements entered into, or materially modified, after the effective date or through retrospective application to all revenue arrangements for all periods presented. (ASU) No. 2009-13 on ASC 605 is currently not applicable to the Company.

In October 2009, the FASB issued ASU No. 2009-14 on ASC 985, Certain Revenue Arrangements That Include Software Elements (ASU 2009-14). ASU 2009-14 amended guidance that is expected to significantly affect how entities account for revenue arrangements that contain both hardware and software elements. As a result, many tangible products that rely on software will be accounted for under the revised multiple-element arrangements revenue recognition guidance, rather than the software revenue recognition guidance. The revised guidance must be adopted by all entities no later than fiscal years beginning on or after June 15, 2010. An entity must select the same transition method and same period for the adoption of both this guidance and the revisions to the multiple-element arrangements guidance noted above. ASU No. 2009-14 on ASC 985 is currently not applicable to the Company.

Off-Balance Sheet Arrangements

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

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Item 4T. Controls and Procedures

(a) Disclosure Controls and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by this report, that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified within the rules and forms of the SEC, and are designed to ensure that information required to be disclosed by the Company in these reports is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company s internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the 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

On April 1, 2010, the Company sold 250,000 shares of its Common Stock, par value $.01 per share, to an individual investor (who was acquainted with a member of the Company s Board of Directors) for $14,000, or $0.056 per share; on April 14, 2010, the Company sold 148,912 shares of its Common Stock, par value $.01 per share, to Philip B. White, a Director, for $6,500, or $.04365 per share; on June 1, 2010, the Company sold 210,000 shares of its Common Stock, par value $.01 per share, to an individual investor (who was acquainted with a member of the Company s Board of Directors) for $10,080, or $0.048 per share. On May 18, 2010, the Company issued warrants, expiring in five years, to purchase 10,000 shares of its Common Stock, par value $.01 at $.06, to an individual (who was acquainted with a member of the Company s Board of Directors) in conjunction with his providing an unsecured loan of $10,000 to the Company. All shares were sold and warrants were issued in private transactions exempt from registration pursuant to Section 4(2) of the Securities Act. No underwriters were involved in these transactions or received any commissions or other compensation. Proceeds of the sales of common stock were used to fund the Company s working capital requirements.

Item 3. Defaults Upon Senior Securities

During the first six months of 2010, the Company accepted unsecured loans totaling $50,500 from four individuals. The acceptance of these unsecured loans constituted a violation of certain covenants of the Company s $100,000 line of credit with a bank. Under the terms of the line of credit agreement, this covenant violation is an event of default.

Item 5. Other Information

Not Applicable

Item 6. Exhibits

(a) Exhibits

31.1	Certification of Chief Executive Officer required by Rule 13a-14(a).
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a).
32.1	Certifications 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 Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NOCOPI TECHNOLOGIES, INC.

DATE: August 23, 2010

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

DATE: August 23, 2010

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

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EXHIBIT INDEX

31.1	Certification of Chief Executive Officer required by Rule 13a-14(a).
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a).
32.1	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant Section 906 of the Sarbanes-Oxley Act of 2002