

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

NOCOPI TECHNOLOGIES INC/MD/  
Form 10QSB  
August 14, 2001

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

Form 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2001.

TRANSITION REPORT PURSUANT TO SECTIONS 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 August 1, 2001: Common stock, par value \$.01 per share  
38,188,907 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 and Six Months Ended June 30, 2001 and June 30, 2000	1
Balance Sheet June 30, 2001	2
Statements of Cash Flows Six Months Ended June 30, 2001 and June 30, 2000	3
Notes to Financial Statements	4-6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7-11
Part II. OTHER INFORMATION	12-14
Signatures	15

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Nocopi Technologies, Inc.  
Statements of Operations  
(unaudited)

	Three Months ended 2001	June 30 2000	Six 200
	-----	-----	-----
Revenues			
Licenses, royalties and fees	\$114,500	\$222,900	\$238,
Product and other sales	69,600	49,900	120,
	-----	-----	-----
	184,100	272,800	358,
Cost of sales			
Licenses, royalties and fees	45,500	75,700	116,
Product and other sales	31,400	38,600	58,
	-----	-----	-----
	76,900	114,300	174,
	-----	-----	-----
Gross profit	107,200	158,500	183,

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

Operating expenses			
Research and development	72,600	40,700	127,
Sales and marketing	72,500	54,100	137,
General and administrative	226,400	130,300	427,
	-----	-----	-----
	371,500	225,100	692,
	-----	-----	-----
Loss from operations	(264,300)	(66,600)	(508,
Other income (expenses)			
Interest income	1,200	5,400	3,
Interest and bank charges	(500)	(900)	(
Equity in net income of unconsolidated affiliate	--	2,000	
	-----	-----	-----
	700	6,500	2,
	-----	-----	-----
Net loss	(\$263,600)	(\$60,100)	(\$505,
	=====	=====	=====
Basic and diluted loss per common share	(\$ .01)	(\$ .00)	(\$
Weighted average common shares outstanding	37,734,362	33,817,332	36,428,

See notes to financial statements.

1

Nocopi Technologies, Inc.  
Balance Sheet  
(unaudited)

	June 30 2001
	-----
Assets	
Current assets	
Cash and cash equivalents	\$ 68,200
Accounts receivable less allowance	56,000
Prepaid and other	43,500
	-----
Total current assets	167,700
Fixed assets	
Leasehold improvements	39,500
Furniture, fixtures and equipment	476,200
	-----
	515,700
Less: accumulated depreciation	477,500
	-----
	38,200
Other assets	
Investment in and advances to unconsolidated affiliate, at cost	110,600
	-----
Total assets	\$ 316,500
	=====

Liabilities and Stockholders' Deficiency

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

Current liabilities	
Accounts payable	\$207,200
Accrued expenses	206,700
Deferred revenue	42,500
	-----
Total current liabilities	456,400
Stockholders' deficiency	
Common stock, \$.01 par value	
Authorized - 75,000,000 shares	
Issued and outstanding - 37,734,362 shares	377,300
Paid-in capital	10,706,500
Accumulated deficit	(11,223,700)
	-----
	(139,900)
	-----
Total liabilities and stockholders' deficiency	\$ 316,500
	=====

See notes to financial statements.

2

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

	Six 2001 -----
Operating Activities	
Net loss	(\$505,900)
Adjustments to reconcile net loss to cash from operating activities	
Depreciation	18,000
Allowance for doubtful accounts, net	1,700
Equity in net income of unconsolidated affiliate	--
	-----
	(486,200)
 (Increase) decrease in assets	
Accounts receivable	14,300
Prepaid and other	(4,400)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	48,200
Deferred revenue	(1,600)
	-----
	56,500
	-----
Cash (used in) operating activities	(429,700)
 Investing Activities	
Additions to fixed assets	--
Advances from affiliate, net	--
	-----
Cash provided by investing activities	--
 Financing Activities	
Issuance of common stock, net	311,000

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

Repayment of notes	--
	-----
Cash provided by (used in) financing activities	311,000
	-----
Decrease in cash and cash equivalents	(118,700)
Cash and cash equivalents - beginning of period	186,900
	-----
Cash and cash equivalents - end of period	\$ 68,200
	=====

See notes to 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 is 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 2000 Annual Report. 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 2000 Annual Report should be read in conjunction with the accompanying interim financial statements. The interim operating results for the six months ended June 30, 2001 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 and a warrant permitting it to increase its interest in Euro to 55%. This warrant, which expires on December 31, 2001, is currently exercisable. Additionally, although the matter is disputed, the Company believes it has a right to acquire, under certain conditions, all shares of Euro not owned by the Company for approximately one million shares of the Company's common stock. This call right expires on December 31, 2001. 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 (including the warrant and right described above) 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

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

dissolve. In mid-December 2000, the Company terminated its license agreement with Euro in accordance with its terms and ceased to provide technical support to Euro. 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

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 arbitration proceedings against the Company before the American Arbitration Association in New York, NY. In these proceedings, Euro has sought an award in the nature of a declaratory judgment to the effect that, due to alleged breaches by the Company of the licensing arrangement between the Company and Euro, it is entitled to a royalty-free license to exploit Registrant's technologies in Europe. Euro has not sought an award of money damages.

The demand appears to allege that the Company has committed numerous breaches of the licensing arrangement between the parties, notably by failing to disclose certain technical information, by failing to provide technical support, services and products to Euro by entering into a licensing agreement with a third party allegedly violating the exclusivity provisions of the Euro licensing arrangement. The Company has filed a response to Euro's demand denying that Euro is entitled to the relief requested and asserting claims for sums due it under the license agreement and for a determination that Registrant has validly terminated the license agreement. The Company intends to defend itself vigorously against Euro's claims and intends to prosecute its counterclaims aggressively.

The Company has been made aware that in late March 2001 certain shareholders of Euro have 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 Company has been advised that the suit

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

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 Company has received requests for indemnification from certain of the defendants and anticipates that additional defendants will seek indemnification from the Company in connection with the lawsuit. The defendants have not yet been required to file a response to the complaint in this lawsuit and such a response has not yet been prepared or filed.

5

### Note 3. Stockholders' Equity

In March 2001, the Company received a \$325,000 (\$311,000 net of expenses) investment from a licensee in return for 3,917,030 shares of its common stock constituting approximately 10% of the Company's outstanding common stock. In July 2001, the Company sold 454,545 shares of its common stock to an investor for \$50,000.

### Note 4. Going Concern

Since its inception, the Company has incurred significant losses and, as of June 30, 2001, had accumulated losses of \$11,223,700. For the years ended December 31, 2000 and 1999, the Company's net losses were \$382,700 and \$1,262,600, respectively. In addition, the Company had negative working capital of \$288,700 at June 30, 2001. 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 net proceeds from the sales in March 2001 and July 2001 by the Company of a total of 4,371,575 shares of its common stock have permitted the Company to continue in operation in the near term. However, Management of the Company believes that, to survive, it must obtain a significant amount of additional capital in the very near term both to fund continuing operating deficits and to fund investment 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.

If the Company continues to experience negative cash flow at current levels and is unable to significantly increase its cash balances through further equity investment or otherwise, it will be forced to cease operations due to a lack of cash within two to three months from the end of the second quarter. 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.

6

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

Item 2.

NOCOPI TECHNOLOGIES, INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Information

The following Management's Discussion and Analysis of Results of Operations and Financial Condition should be read in conjunction with our audited Financial Statements and Notes thereto for the year ended December 31, 2000 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 "Risk Factors." The forward-looking statements included in this report may prove to be inaccurate. In light of the significant uncertainties inherent in these forward-looking statements, you should not consider this information to be a guarantee by us or any other person that our objectives and plans will be achieved. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results (expressed or implied) will not be realized.

### Results of Operations

The Company's revenues are derived from royalties paid by licensees of the Company's technologies, fees for the provision of technical services to licensees and from the direct sale of products incorporating the Company's technologies, such as 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 fee 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.

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 second quarter of 2001 were \$184,100 compared to \$272,800 in the second quarter of 2000, a 33% decline. Licenses, royalties and fees declined by \$108,400, or 49%, in the second quarter of 2001 to \$114,500 from \$222,900 in the second quarter of 2000. The reduction in licenses, royalties and fees is due primarily to the termination or non-renewal of license arrangements with five licensees, including the Company's former exclusive European licensee, during 2000 and the first half of 2001. Product sales were \$69,600 in the second quarter of 2001 compared to \$49,900 in the second quarter of 2000. The increase in product sales of \$19,700, or 39% reflects higher sales of the Company's security papers and inks.

For the first six months of 2001, revenues were \$358,300, 48% (\$331,100) lower than revenues of \$689,400 in the first six months of 2000. Licenses, royalties and fees declined by \$202,800, or 46%, in the first half of 2001 to \$238,300 from \$441,100 in the first half of 2000 for the same reasons described above. Product sales were \$120,000 in the first half of 2001 compared to \$248,300 in the first half of 2000. During the first half of 2000, the Company sold and installed an ink-jet printing system to a new licensee. The \$128,300 (52%) decline in product sales is attributable to the non-recurrence of this one-time sale offset in part by increased sales of the Company's security papers and inks in the first six months of 2001.

The Company's gross profit declined to \$107,200 in the second quarter of 2001 or 58% of revenues from \$158,500 or 58% of revenues in the second quarter of 2000. The lower gross profit in absolute dollars in the second quarter of 2001 compared to the second quarter of 2000 results principally from a decrease in the portion of revenues represented by licenses, royalties and fees, which typically have a higher gross margin than other revenues.

For the first six months of 2001, the gross profit declined to \$183,900, or 51% of revenues, from \$314,300, or 46% of revenues, in the first half of 2000. Certain components of cost of sales related to licenses, royalties and fees, such as production labor and rent, are substantially fixed. The variable component of these costs of sales, primarily ink and chemicals, is a small percentage of the related revenues. As these revenues decline, the gross profit is negatively impacted, both in absolute dollars and as a percentage of revenues. The gross profit related to product and other sales increased in absolute dollars in the first six months of 2001 compared to the first six months of 2000 as a result of changes in the mix of products sold.

Research and development expenses increased to \$72,600 and \$127,300 in the second quarter and first half of 2001, respectively, from \$40,700 and \$96,100 in the comparable periods of 2000. The increases relate primarily to higher compensation expense as the addition of an applications chemist was required in the second quarter of 2001 to support the Company's existing technologies.

Sales and marketing expenses increased to \$72,500 in the second quarter of 2001 from \$54,100 in the second quarter of 2000. For the first six months of 2001, sales and marketing expenses were \$137,100 compared to \$104,300 in the first six months of 2000. The increases for both the second quarter and first six months of 2001 reflects fees paid to sales agents and consultants and increased travel related to the Company's initiative to market its technologies directly to European users. During the first half of 2001 the Company derived no revenues from new European licensees.

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

General and administrative expenses increased to \$226,400 in the second quarter of 2001 from \$130,300 in the second quarter of 2000. The entire increase results from higher audit expenses and legal fees recognized in the second quarter of 2001 compared to the second quarter of 2000 due to litigation and arbitration proceedings with the Company's former European exclusive licensee and factors related to the Company's adverse liquidity situation. The Company's legal and audit expenses were \$135,400, or 74% of revenues, in the second quarter of 2001 compared to \$40,500, or 15% of revenues, in the second quarter of 2000. General and administrative expenses increased by \$168,900 in the first six months of 2001 to \$427,700 from \$258,800 in the first six months of 2000 for the same reasons as the second quarter, legal and audit expenses. Legal and audit expenses were \$246,900, or 69% of revenues, in the first half of 2001 compared to \$73,700, or 11% of revenues, in the first half of 2000.

Other income (expense) includes interest income on funds invested. The decline in interest income in the second quarter and first half of 2001 compared to the second quarter and first half of 2000 relates to lower levels of cash invested.

Equity in net income of unconsolidated affiliate represented the proportionate share in the net income or loss of Euro-Nocopi, S.A. attributable to the Company's approximate 18% ownership share of Euro-Nocopi, S.A. The Company changed its method of accounting for its investment in Euro-Nocopi, S.A. to the cost method effective October 1, 2000.

The net loss increased to \$263,600 in the second quarter of 2001 from \$60,100 in the second quarter of 2000 and to \$505,900 in the first half of 2001 from \$133,200 in the first half of 2000. The increase in the second quarter and first half net loss from the prior year period resulted primarily from reductions in revenue and gross profit as the Company's business has continued to contract, the loss of licensing revenues from the Company's former European exclusive licensee, and higher audit expenses and increased legal fees incurred in litigation and arbitration proceedings with this licensee and factors related to the Company's adverse liquidity situation.

### Plan of Operation, Liquidity and Capital Resources

The Company's cash and cash equivalents declined to \$68,200 at June 30, 2001 from \$186,900 at December 31, 2000. During the first half of 2001, the Company sold 3,917,030 shares of its common stock to a licensee for \$325,000 (\$311,000 net of expenses) and used \$429,700 to fund operations over the six-month period then ended.

9

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. During the first quarter of 2001, the receipt of funds in conjunction with the sale of approximately 10% of the Company's common stock has permitted the Company to continue in operation in the near term. However, Management of the Company believes that, to survive, it must obtain additional capital in the very near term both to primarily fund continuing operating deficits and to 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 or otherwise, it will be forced to cease operations due to a lack of cash within two to three months from the end of the second quarter. There can be no assurances that the Company will be able to secure additional equity

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

investment before it is forced to cease operations.

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.

### Factors That May Affect Future Growth 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:

Potential Inability to Continue in Operation; Immediate Need for New Equity Investment. The Company had a negative working capital of \$288,700 at June 30, 2001 and experienced negative cash flow from operations of \$429,700 in the six months ended June 30, 2001. Additionally, it experienced negative cash flow of \$563,100 and \$622,900, respectively, for years ended December 31, 2000 and 1999. While the Company, in early March 2001, received \$311,000 in net new equity investment, and a further \$50,000 in July 2001, Management does not believe the Company can significantly improve its negative cash flow in the near future through its United States operations. Subsequent to the termination of the licensing agreement with Euro-Nocopi, S.A., the Company has been seeking to negotiate end-user licenses with current users of its technologies in Europe; however, it did not derive any first half 2001 revenues from new European licensees. There can be no assurances that the Company will be able to enter into licenses with European customers that will generate sufficient revenues and cash flow to offset the negative cash flow currently being experienced in its United States operations. The Company continues to incur significant legal fees in connection with ongoing litigation and arbitration proceedings with Euro-Nocopi, S.A. If the Company continues to experience negative cash flow at current levels and is unable to significantly increase its cash balances through further equity investment or otherwise, it will be forced to cease operations due to a lack of cash within two to three months from the end of the second quarter. 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.

10

Possible Inability to Develop New Business. Even if the Company is able to raise cash through additional equity 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. The Company has reduced staffing in both areas in order to reduce operating expenses, and there are no assurances that the resources the Company 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.

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

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

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

**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 situation. 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 which infringe on the Company's rights. In either event, the Company's customer and licensee relationships could be adversely affected.

11

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

Except as set forth below, Registrant is not aware of any material pending litigation (other than ordinary routine litigation incidental to its business where, in management's view, the amount involved is less than 10% of Registrant's current assets) to which Registrant is or may be a party, or to which any of its properties is or may be subject, nor is it aware of any pending or contemplated proceedings against it by any governmental authority. Registrant knows of no material legal proceedings pending or threatened, or judgments entered against, any director or officer of Registrant in his capacity as such.

In December 2000, Euro-Nocopi, S.A, Registrant's former European licensee, commenced emergency proceedings against Registrant in a court in Paris, France. It sought the entry of an order, in the nature of a preliminary injunction, to compel Registrant to honor the license agreement between Euro-Nocopi and Registrant (which Registrant terminated in December 2000) pending judicial or arbitral resolution of a dispute between the parties under the license agreement. Notably, in the French litigation, Euro-Nocopi S.A. did not seek an adjudication on the merits of the underlying dispute. Certain shareholders of

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

Euro-Nocopi, S. A. subsequently joined in the proceedings commenced by Euro-Nocopi, S.A. In March 2001, the Emergency Judge hearing the action issued a decision denying the relief requested by Euro-Nocopi, S.A. and the shareholders. The decision, which does not purport to be a final adjudication of the merits of the controversy but only of Euro-Nocopi's request for preliminary relief, notes that Registrant had validly terminated the licensing arrangement and held that Euro-Nocopi, S.A. was not entitled to the requested order compelling Registrant to continue to perform the license agreement. The decision also ordered Euro-Nocopi, S.A. to pay into escrow the approximately \$125,000 that Registrant claimed was due and owing under the licensing arrangement.

In March 2001, Euro-Nocopi, S.A. commenced arbitration proceedings against Registrant before the American Arbitration Association in New York, NY. In these proceedings, Euro-Nocopi, S.A. has sought an award in the nature of a declaratory judgment to the effect that, due to alleged breaches by Registrant of the licensing arrangement between Registrant and Euro-Nocopi, S.A., it is entitled to a royalty-free license to exploit Registrant's technologies in Europe. Euro-Nocopi, S.A. has not sought an award of money damages.

12

The demand appears to allege that Registrant has committed numerous breaches of the licensing arrangement between the parties, notably by failing to disclose certain technical information, by failing to provide technical support, services and products to Euro-Nocopi, S.A. and by entering into a licensing agreement with a third party allegedly violating the exclusivity provisions of the Euro-Nocopi, S.A. licensing arrangement. Registrant has filed a response to Euro-Nocopi's demand denying that Euro-Nocopi is entitled to the relief requested and asserting claims for sums due it under the license agreement and for a determination that Registrant has validly terminated the license agreement. Registrant intends to defend itself vigorously against Euro-Nocopi's claims and intends to prosecute its counterclaims aggressively.

Registrant has been made aware that in late March 2001 certain shareholders of Euro-Nocopi, S.A. have filed suit in a court in Paris, France against certain current and former officers and directors of Registrant, and against a licensee of Registrant. The current officers and directors of Registrant named as defendants in the lawsuit are Michael Feinstein, Chairman of the Board, and Stanley Hart, a director. Registrant is not named as a defendant in the suit. Registrant has been advised that 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-Nocopi, S.A., the management of that company and Registrant's management of its relationship with that company. Registrant has received requests for indemnification from certain of the defendants and anticipates that additional defendants will seek indemnification from the Company in connection with the lawsuit. The defendants have not yet been required to file a response to the complaint in this lawsuit and such a response has not yet been prepared or filed.

Item 2. Changes in Securities

Not Applicable

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

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

13

Item 6. Exhibits and Reports on Form 8-K

(a) The Registrant filed the following Current Report on Form 8-K during the quarter ended June 30, 2001.

April 17, 2001 - Press Release dated April 16, 2001

14

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: August 14, 2001

/s/ Michael A Feinstein, M.D.  
-----

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

DATE: August 14, 2001

/s/ Rudolph A. Lutterschmidt  
-----

Rudolph A. Lutterschmidt  
Vice President & Chief Financial Officer

15

