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NOCOPI TECHNOLOGIES INC/MD/  
Form 10QSB  
November 14, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2005

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 0-20333  
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NOCOPI TECHNOLOGIES, INC.  
-----

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

MARYLAND  
-----

87-0406496  
-----

(State or other jurisdiction  
of incorporation or organization)

(IRS Employer Identification No.)

9C Portland Road, West Conshohocken, PA 19428  
-----

(Address of principal executive offices)

(610) 834-9600  
-----

(Issuer's telephone number)

Check whether the issuer has (1) filed all reports required to be filed  
by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for  
such shorter period that the registrant was required to file such reports), and  
(2) has been subject to such filing requirements for the past 90 days.  
Yes  No

State the number of shares outstanding of each of the issuer's classes  
of common equity, as of November 1, 2005: Common stock, par value \$.01 per  
share: 50,586,181 shares.

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

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 SEPTEMBER 30		
	2005	2004	
REVENUES			
LICENSES, ROYALTIES AND FEES	\$80,100	\$101,800	\$2
PRODUCT AND OTHER SALES	58,700	63,200	1
	138,800	165,000	3
COST OF SALES			
LICENSES, ROYALTIES AND FEES	26,500	36,400	
PRODUCT AND OTHER SALES	26,600	34,300	
	53,100	70,700	1
GROSS PROFIT	85,700	94,300	2

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OPERATING EXPENSES			
RESEARCH AND DEVELOPMENT	35,600	40,400	1
SALES AND MARKETING	26,600	25,300	
GENERAL AND ADMINISTRATIVE (EXCLUSIVE OF LEGAL EXPENSES)	42,400	52,100	1
LEGAL EXPENSES	19,100	31,700	
	-----	-----	
	123,700	149,500	4
	-----	-----	
LOSS FROM OPERATIONS	(38,000)	(55,200)	(1
OTHER INCOME (EXPENSES)			
INTEREST INCOME	-	-	
INTEREST AND BANK CHARGES	(500)	(3,200)	
	-----	-----	
	(500)	(3,200)	
	-----	-----	
NET LOSS	(\$38,500)	(\$58,400)	(\$1
	=====	=====	=====
BASIC AND DILUTED LOSS			
PER COMMON SHARE	(\$ .00)	(\$ .00)	
BASIC AND DILUTED WEIGHTED AVERAGE			
COMMON SHARES OUTSTANDING	50,586,181	47,510,221	50,5

\* THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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NOCOPI TECHNOLOGIES, INC.  
BALANCE SHEET\*  
(UNAUDITED)

ASSETS

CURRENT ASSETS

CASH AND CASH EQUIVALENTS  
ACCOUNTS RECEIVABLE LESS \$15,000 ALLOWANCE  
ARBITRATION SETTLEMENT RECEIVABLE  
PREPAID AND OTHER

TOTAL CURRENT ASSETS

FIXED ASSETS

LEASEHOLD IMPROVEMENTS  
FURNITURE, FIXTURES AND EQUIPMENT

LESS: ACCUMULATED DEPRECIATION

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OTHER ASSETS

ARBITRATION SETTLEMENT RECEIVABLE

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES

ADVANCE FROM DIRECTOR

ACCOUNTS PAYABLE

ACCRUED EXPENSES

DEFERRED REVENUE

TOTAL CURRENT LIABILITIES

STOCKHOLDERS' DEFICIENCY

COMMON STOCK, \$.01 PAR VALUE

AUTHORIZED - 75,000,000 SHARES

ISSUED AND OUTSTANDING - 50,586,181 SHARES

PAID-IN CAPITAL

ACCUMULATED DEFICIT

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY

\* THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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NOCOPI TECHNOLOGIES, INC.  
STATEMENTS OF CASH FLOWS\*  
(UNAUDITED)

	NINE MONTHS 2005 -----
OPERATING ACTIVITIES	
NET LOSS	(\$167,700)
ADJUSTMENTS TO RECONCILE NET LOSS TO CASH FROM OPERATING ACTIVITIES	
DEPRECIATION	12,600
COMPENSATION EXPENSE - STOCK OPTION GRANTS	-
	----- (155,100)
(INCREASE) DECREASE IN ASSETS	
ACCOUNTS RECEIVABLE	31,300
ARBITRATION SETTLEMENT RECEIVABLE	50,000
PREPAID AND OTHER	(2,100)
INCREASE (DECREASE) IN LIABILITIES	
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	36,200
DEFERRED REVENUE	16,400
	-----

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	131,800
	-----
NET CASH USED IN OPERATING ACTIVITIES	(23,300)
INVESTING ACTIVITIES	
ADDITIONS TO FIXED ASSETS	-
	-----
NET CASH USED IN INVESTMENT ACTIVITIES	-
FINANCING ACTIVITIES	
ISSUANCE OF COMMON STOCK, NET	-
ADVANCE FROM DIRECTOR, NET	3,000
	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,000
	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,300)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24,000
	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$3,700
	=====
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES	
CONVERSION OF DEMAND LOANS AND ACCRUED INTEREST TO COMMON STOCK	
DEMAND LOANS	
ACCRUED INTEREST	
COMMON STOCK	
PAID-IN CAPITAL	

\*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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NOCOPI TECHNOLOGIES, INC.

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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 2004 Annual Report on Form 10-KSB. Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the accompanying disclosures are adequate to make the information presented not misleading. The Notes to Financial Statements included in the 2004 Annual Report on Form 10-KSB should be read in conjunction with the accompanying interim financial statements. The interim operating results for the three and nine months ended September 30, 2005 may not be necessarily indicative of the operating results

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expected for the full year.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB revised SFAS 123, "Accounting for Stock-Based Compensation" to require all companies to expense the fair value of employee stock options. SFAS 123R is effective at the beginning of the next fiscal year beginning after December 15, 2005 for a small business issuer.

The following recently issued accounting pronouncements are currently not applicable to the Company.

In January 2003, subsequently revised December 2003, the FASB issued FASB Interpretation No. 46R ("FIN 46R"), Consolidation of Variable Interest Entities - An Interpretation of AARB N. 51. FIN 46R requires that if any entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46R provisions are effective for all arrangements entered into after January 31, 2003. FIN 46R provisions are required to be adopted for the first period ending after December 15, 2004 for a small business issuer.

FAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, requires financial instruments within its scope to be classified as liabilities (or assets in some circumstances). The Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise

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effective at the beginning of the first interim period beginning after June 15, 2003, except for certain mandatorily redeemable financial instruments. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The effective date of certain provisions of Statement 150 for certain mandatorily redeemable financial instruments has been deferred by FSP FAS 150-3. Under the FSP, certain mandatorily redeemable shares are subject to the provisions of Statement 150 for the first fiscal period beginning after December 15, 2004. Other mandatorily redeemable shares are deferred indefinitely but may be subject to classification or disclosure provisions of the Statement.

### NOTE 2. GOING CONCERN

Since its inception, the Company has incurred significant losses and, as of September 30, 2005, had accumulated losses of \$12,518,800. For the years ended December 31, 2004 and 2003, the Company's losses from operations were \$328,500 and \$441,300, respectively. In addition, the Company had negative working capital of \$604,900 at September 30, 2005. At September 30, 2005, its cash balance was \$3,700. As a result, the Company is in need of immediate capital investment to allow it to continue in operations. The Company will likely 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

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profits to achieve and sustain profitability and positive cash flow in the future.

During 2004, the Company raised \$161,000 (\$152,100 net of offering expenses) in a private placement whereby 1,610,000 shares of the Company's common stock were sold to three non-affiliated individual investors pursuant to a valid private placement. These investments, combined with the receipt of \$900,000 in June 2003 in conjunction with the settlement of its arbitration proceedings with Euro-Nocopi, S.A. and annual payments of \$50,000 in 2004 and 2005 in accordance with the settlement agreement, have permitted the Company to continue in operation to the current date. Two further installments of \$50,000 each related to the settlement agreement are due in March 2006 and March 2007. As a result of the settlement, the significant legal fees incurred in the arbitration have been eliminated. Additionally, the Company has reduced staff and, in 2003, completed its relocation to a new facility that it believes will enable the Company to further reduce its operating expenses. Management of the Company believes that it will need to obtain 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 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 improve its business 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 during the fourth quarter of 2005.

### NOTE 3. ADVANCE FROM DIRECTOR

During the third quarter of 2005, the Company's Chairman of the Board advanced \$6,000 to the Company of which \$3,000 was repaid.

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### NOTE 4. INCOME TAXES

There is no provision for income taxes for the three months and nine months ended September 30, 2005 and September 30, 2004 since 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.

### NOTE 5. LOSS PER SHARE

Because the Company reported a net loss for the three and nine months ended September 30, 2005 and September 30, 2004, common stock equivalents, consisting of stock options, were anti-dilutive.

### NOTE 6. STOCK OPTIONS

On April 30, 2004, the Company granted options to two officers to purchase a total of 250,000 shares of its common stock at an exercise price of \$0.17 per share, which was the market price on grant date, expiring in five years and vesting at various dates through April 30, 2005.

The Company applies Accounting Principles Board Opinion No. 25,

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"Accounting for Stock Issued to Employees," and related interpretations in accounting for the issuance of its stock options. Accordingly, no compensation cost was recognized for its stock options issued during the six months ended June 30, 2004. Had compensation cost for the Company's issuance of vested stock options been determined based on the fair value at grant dates for options consistent with the method of SFAS No. 123, the Company's net loss would have been increased to the pro forma amounts indicated below. The net loss per share would not change. Fair value amounts were estimated using the Black-Scholes model with the following assumptions: no dividend yield, expected volatility of 60%, and a risk-free interest rate of 4% for the three and nine months ended September 30, 2004.

		Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Net loss	As reported	(\$58,400)	(\$293,500)
	Pro forma	(\$58,400)	(\$316,500)
Net loss per share	As reported	(\$0.00)	(\$0.01)
	Pro forma	(\$0.00)	(\$0.01)

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During 2005, the Company granted 300,000 options to three directors, including its Chairman of the Board, under its Directors Stock Option Plan at \$.10 per share vesting on January 1, 2006 and expiring in April 2010. In September 2005, the Company granted 100,000 options to a recently appointed director at \$.09 per share, vesting on January 1, 2006 and expiring in May 2010. The options for all Directors are contingent upon the directors attending a certain percentage of board of directors meetings in 2005. In accordance with the fair value method as described in accounting requirements of SFAS No. 123, expense of approximately \$17,000 will be recognized when the contingency is met.

### NOTE 7. MAJOR CUSTOMER INFORMATION

The Company's largest non-affiliate customers accounted for approximately 69% and 70% of revenues in the third quarter and first nine months of 2005, respectively, approximately 67% and 58% of revenues in the third quarter and first nine months of 2004, respectively and approximately 86% of accounts receivable at September 30, 2005. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company also maintains allowances for potential credit losses.

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ITEM 2.

NOCOPI TECHNOLOGIES, INC.  
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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, 2004 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 inks, security paper and pressure sensitive labels, as well as equipment used to support the application of the Company's technologies, such as ink-jet printing systems. Royalties consist of guaranteed minimum royalties payable by the Company's licensees and/or additional royalties which typically vary with the licensee's sales or production of products incorporating the licensed technology. Technical services, in the form of on-site or telephone consultations by members of the Company's technical staff, may be offered to licensees of the Company's technologies. The consulting fees are billed at agreed upon per diem or hourly rates at the time the services are rendered. Service fees and sales revenues vary directly with the number of units of service or product provided.

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

a) License fees and royalties are recognized when the license term begins. Upon inception of the license term, revenue is recognized in a manner consistent with the nature of the transaction and the earnings process, which generally is ratably over the license term;

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

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c) Fees for technical services are recognized when (i) the service has been rendered; (ii) an arrangement exists; (iii) the price is fixed or determinable based upon a per diem or hourly rate; and (iv) collectibility is reasonably assured.

While the Company's fixed costs have been reduced as a result of its relocation to a new location in 2003 and because the Company believes that further fixed cost reductions may not be achievable, its operating results are substantially dependent on revenue levels. Because revenues derived from licenses and royalties carry a much higher gross profit margin than other revenues, operating results are also substantially affected by changes in revenue mix.

Both the absolute amounts of the Company's revenues and the mix among the various sources of revenue are subject to substantial fluctuation. The Company has a relatively small number of substantial customers rather than a large number of small customers. Accordingly, changes in the revenue received from a significant customer can have a substantial effect on the Company's total revenue and on its revenue mix and overall financial performance. Such changes may result from a customer's product development delays, engineering changes, changes in product marketing strategies and the like. In addition, certain customers have, from time to time, sought to renegotiate certain provisions of their license agreements and, when the Company agrees to revise terms, revenues from the customer may be affected. The addition of a substantial new customer or the loss of a substantial existing customer may also have a substantial effect on the Company's total revenue, revenue mix and operating results.

Revenues for the third quarter of 2005 were \$138,800 compared to \$165,000 in the third quarter of 2004, a 16% decrease. Licenses, royalties and fees decreased by \$21,700, or 21%, to \$80,100 in the third quarter of 2005 from \$101,800 in the third quarter of 2004. The decrease in licenses, royalties and fees is due primarily to the non-renewal of two license agreements offset in part by the inception during the third quarter of 2005 of a license arrangement with the first licensee for the Company's new Rub-n-Color product for the Educational and Toy Market. Product and other sales were \$58,700 in the third quarter of 2005 compared to \$63,200 in the third quarter of 2004, a 7% decrease due to lower sales of both the Company's security inks and papers. For the first nine months of 2005, revenues were \$396,500, 12% lower than revenues of \$449,900 in the first nine months of 2004. Licenses, royalties and fees of \$242,000 in the first nine months of 2005 decreased by \$32,700, or 12%, from \$274,700 in the first nine months of 2004 due primarily to the non-renewal of two licenses over the preceding twelve months offset in part by the inception of three new license arrangements over the same period. Product sales were \$154,500 in the first nine months of 2005 compared to \$175,200 in the first nine months of 2004, a 12% decline. The decrease in product sales reflects lower sales of the Company's line of security papers offset in part by higher sales of inks during the first half of 2005 compared to the first half of 2004.

The Company's gross profit decreased to \$85,700 in the third quarter of 2005 or 62% of revenues from \$94,300 or 57% of revenues in the third quarter of 2004. Licenses, royalties and fees carry a substantially higher gross profit than product sales, which generally consist of supplies or other manufactured products which incorporate the Company's technologies or equipment used to support the application of its technologies. These items (except for inks which are manufactured by the Company) are generally purchased from third-party vendors and resold to the end-user or licensee and carry a significantly lower gross profit than licenses, royalties and fees. The lower gross profit in the third quarter of 2005 compared to the third quarter of 2004 resulted principally from a decrease in revenues represented by licenses, royalties and fees offset in part by lower fixed costs of production.

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For the first nine months of 2005, the gross profit was \$241,100, or 61% of revenues compared to \$265,700, or 59% of revenues, in the first nine months of 2004. The decrease in the gross profit in absolute dollars in the first half of 2005 compared to the first half of 2004 resulted from a lower level of revenues in the first nine months of 2005 compared to the first nine months of 2004.

Research and development expenses decreased to \$35,600 in the third quarter of 2005 from \$40,400 in the third quarter of 2004. For the first nine months of 2005, research and development expenses were \$110,200 compared to \$134,400 in the first nine months of 2004. The decrease in both the third quarter and first nine months of 2005 was due primarily to a reduction of staff during the third quarter of 2004.

Sales and marketing expenses of \$26,600 in the third quarter of 2005 approximated the \$25,300 incurred in the third quarter of 2004. For the first nine months of 2005, sales and marketing expenses were \$87,000 compared to \$108,300 in the first nine months of 2004. The decrease in the first nine months of 2005 compared to the first nine months of 2004 reflects lower travel, sales promotion and business show expense as certain expenses associated with the introduction of the Company's new Rub-n-Color product for the Educational and Toy Market in the first nine months of 2004 were not incurred in the the first nine months of 2005.

General and administrative expenses (exclusive of legal expenses) decreased by \$9,700 to \$42,400 in the third quarter of 2005 from \$52,100 in the third quarter of 2004. The decrease in the third quarter of 2005 compared to the third quarter of 2004 is due primarily to \$9,000 in expenses recorded in the third quarter of 2004 in connection with the issuance to members of the Company's Board of Directors and two consultants of 900,000 options to purchase shares of the Company's common stock. During 2005, 300,000 options were issued to three members of the Company's Board of Directors subject to certain board meeting attendance requirements. For the first nine months, general and administrative expenses (exclusive of legal expense) decreased by \$69,400 to \$143,200 in 2005 from \$212,600 in 2004 primarily as a result of the same factor as the third quarter decrease.

Legal expenses decreased to \$19,100 and \$66,900, respectively, in the third quarter and first nine months of 2005 from \$31,700 and \$94,000 in the third quarter and first nine months of 2004. During the third quarter of 2004, the Company incurred legal fees in structuring agreements related to the conversion of the Company's demand loans into common stock and the release of certain stock option rights. Additionally, during the first nine months of 2005, a lower level of legal counseling was required by the Company in its compliance with securities regulations and other matters than in the first nine months of 2004.

Other income (expense) decreased in the third quarter and first nine months of 2005 compared to the third quarter and first nine months of 2004 as interest expense on the demand loans was eliminated due to their conversion to common stock of the Company in September 2004.

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The net loss of \$38,500 and \$167,700, respectively, in the third quarter and first nine months of 2005 compared to the net loss of \$58,400 and \$293,500, respectively, in the third quarter and first nine months of 2004 was due to the non-recurrence of the expense associated with the issuance of stock options to Directors and consultants in the second quarter of 2004, lower sales and marketing expenses and a reduction of staff during 2004 offset in part by a lower gross margin resulting from lower revenues.

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### PLAN OF OPERATION, LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased to \$3,700 at September 30, 2005 from \$24,000 at December 31, 2004. The cash was used to fund operations over the nine-month period.

The loss of a number of customers during the past three years and the loss of periodic fees under the license agreement with Euro-Nocopi, S.A. commencing in 2000 have had a material adverse effect on the Company's revenues and results of operations and upon its liquidity and capital resources. During 2004, the Company raised \$161,000 (\$152,100 net of offering expenses) in a private placement whereby 1,610,000 shares of the Company's common stock were sold to three non-affiliated individual investors pursuant to a valid private placement. This investment, combined with the receipt of \$900,000 in June 2003 in conjunction with the settlement of its arbitration proceedings with Euro-Nocopi, S.A. and annual payments of \$50,000 in 2004 and 2005 in accordance with the settlement agreement, have permitted the Company to continue in operation to the current date. As a result of the settlement, a significant ongoing expense for related legal fees has been eliminated. Additionally, the Company has reduced staff and, during the third quarter of 2003, completed its relocation to a new facility that it believes will enable the Company to further reduce its operating expenses. Management of the Company believes that it will need to obtain additional capital in the 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 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 improve its business so as to have a material positive effect on the Company's operations and cash flow. The Company believes that without additional investment, it may be forced to cease operations during the fourth quarter of 2005.

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

### 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:

Inability to Continue in Operation Without Immediate New Equity Investment. The Company had a negative working capital of \$604,900 at September 30, 2005 and experienced negative cash flow from operations of \$23,300 in the nine months ended September 30, 2005. Additionally, it experienced negative cash flow from

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operations of \$217,200 in the year ended December 31, 2004. Management of the Company believes that while certain staff reductions initiated in 2003 and continuing into 2004 as well as the move of the Company's operations to a new facility in 2003, will reduce the Company's negative cash flow, it anticipates that the negative cash flow will continue until it can achieve revenue increases. Management believes that it will need to obtain additional capital in the future both to fund investments needed to increase its operating revenues to

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levels that will sustain its operations and to fund operating deficits that it anticipates will continue until revenue increases 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 improve its business so as to have a material positive effect on the Company's operations and cash flow. The Company believes that without additional investment, it may be forced to cease operations during the fourth quarter of 2005. 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 may be forced to cease operations.

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

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

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

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**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

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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, few securities analysts and traders follow it and it is thinly traded. 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. There can be no assurances that the Company will be able to protect the basis of its technologies from discovery by unauthorized third parties or to preclude unauthorized persons from conducting activities that infringe on the Company's rights. The Company's adverse liquidity situation has also impacted its ability to obtain patent protection on its intellectual property and to maintain protection on previously issued patents. While the Company has been advised by its patent counsel that patent maintenance fees approximating \$12,000 will be due during 2005, it presently intends to keep in force patents, whose maintenance fees are approximately \$1,000, that are applicable to its current and prospective product offerings. There can be no assurances that the Company will be able to continue to prosecute new patents and maintain issued patents. As a result, the Company's customer and licensee relationships could be adversely affected and the value of the Company's technologies and intellectual property (including their value upon a liquidation of the Company) could be substantially diminished.

### OFF-BALANCE SHEET ARRANGEMENTS

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

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### ITEM 3. DISCLOSURE CONTROLS AND PROCEDURES

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

There have been no changes in the Company's internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

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

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

(a) Exhibits

31.1 Certificate of Chief Executive Officer required by Rule 13a-14(a).

31.2 Certificate of Chief Financial Officer required by Rule 13a-14(a).

32. Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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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.

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DATE: November 14, 2005

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

DATE: November 14, 2005

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

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EXHIBIT INDEX

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- 32.1 Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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