

UNIVERSAL DISPLAY CORP \PA\  
Form 10-Q  
May 10, 2010

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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 1-12031

UNIVERSAL DISPLAY CORPORATION  
(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

23-2372688  
(I.R.S. Employer Identification No.)

375 Phillips Boulevard  
Ewing, New Jersey  
(Address of principal executive offices)

08618  
(Zip Code)

Registrant's telephone number, including area code: (609) 671-0980

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  No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

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  No

As of May 5, 2010, the registrant had outstanding 37,646,323 shares of common stock.

---

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

|  |           |
|--|-----------|
| <u>Item 1. Financial Statements (unaudited)</u>  |           |
| <u>Consolidated Balance Sheets – March 31, 2010 and December 31, 2009</u>                            | <u>3</u>  |
| <u>Consolidated Statements of Operations – Three months ended March 31, 2010 and 2009</u>            | <u>4</u>  |
| <u>Consolidated Statements of Cash Flows – Three months ended March 31, 2010 and 2009</u>            | <u>5</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>6</u>  |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>14</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>18</u> |
| <u>Item 4. Controls and Procedures</u>   | <u>18</u> |

PART II – OTHER INFORMATION

|  |           |
|--|-----------|
| <u>Item 1. Legal Proceedings</u>   | <u>19</u> |
| <u>Item 1A. Risk Factors</u>   | <u>20</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>20</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>                             | <u>20</u> |
| <u>Item 4. Removed and Reserved</u>  | <u>20</u> |
| <u>Item 5. Other Information</u>   | <u>20</u> |
| <u>Item 6. Exhibits</u>  | <u>21</u> |

Table of Contents

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

|   | March 31,<br>2010   | December 31,<br>2009 |
|---|---------------------|----------------------|
| <b>ASSETS</b>   |                     |                      |
| <b>CURRENT ASSETS:</b>  |                     |                      |
| Cash and cash equivalents   | \$7,553,643         | \$22,701,126         |
| Short-term investments  | 55,467,352          | 41,172,955           |
| Accounts receivable   | 2,399,297           | 3,344,255            |
| Other current assets  | 372,585             | 411,240              |
| <b>Total current assets</b>   | <b>65,792,877</b>   | <b>67,629,576</b>    |
| <b>PROPERTY AND EQUIPMENT</b> , net of accumulated depreciation of \$16,212,271 and \$15,788,490  | <b>10,624,506</b>   | <b>11,048,763</b>    |
| <b>ACQUIRED TECHNOLOGY</b> , net of accumulated amortization of \$16,140,214 and \$15,716,446   | <b>810,504</b>      | <b>1,234,272</b>     |
| <b>OTHER ASSETS</b>   | <b>245,557</b>      | <b>227,276</b>       |
| <b>TOTAL ASSETS</b>   | <b>\$77,473,444</b> | <b>\$80,139,887</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                     |                      |
| <b>CURRENT LIABILITIES:</b>   |                     |                      |
| Accounts payable  | \$1,620,909         | \$1,275,695          |
| Accrued expenses  | 3,470,776           | 5,238,870            |
| Deferred license fees   | 6,178,886           | 6,047,467            |
| Deferred revenue  | 1,041,731           | 1,403,927            |
| <b>Total current liabilities</b>  | <b>12,312,302</b>   | <b>13,965,959</b>    |
| <b>DEFERRED LICENSE FEES</b>  | <b>3,271,388</b>    | <b>2,826,237</b>     |
| <b>STOCK WARRANT LIABILITY</b>  | <b>3,006,922</b>    | <b>3,720,165</b>     |
| <b>Total liabilities</b>  | <b>18,590,612</b>   | <b>20,512,361</b>    |
| <b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>   |                     |                      |
| <b>SHAREHOLDERS' EQUITY:</b>  |                     |                      |
| Preferred Stock, par value \$0.01 per share, 5,000,000 shares authorized, 200,000 shares of Series A Nonconvertible Preferred Stock issued and outstanding (liquidation value of \$7.50 per share or \$1,500,000) | 2,000               | 2,000                |
| Common Stock, par value \$0.01 per share, 50,000,000 shares authorized, 37,593,459 and 36,818,440 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively                             | 375,935             | 368,184              |

|   |                     |                     |
|---|---------------------|---------------------|
| Additional paid-in capital                              | 258,599,927         | 256,340,530         |
| Unrealized (loss) gain on available-for-sale securities | (7,994 )            | 25,517              |
| Accumulated deficit                                     | (200,087,036)       | (197,108,705)       |
| Total shareholders' equity                              | 58,882,832          | 59,627,526          |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>       | <b>\$77,473,444</b> | <b>\$80,139,887</b> |

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

Table of Contents

## UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

|   | Three Months Ended March |                |
|---|--------------------------|----------------|
|   | 2010                     | 2009           |
| REVENUE:  |                          |                |
| Commercial revenue  | \$1,830,147              | \$1,369,137    |
| Developmental revenue   | 2,416,503                | 1,464,721      |
| Total revenue   | 4,246,650                | 2,833,858      |
| OPERATING EXPENSES:   |                          |                |
| Cost of chemicals sold  | 460,786                  | 170,987        |
| Research and development  | 4,466,631                | 5,219,062      |
| Selling, general and administrative   | 2,642,246                | 2,622,945      |
| Patent costs  | 781,259                  | 731,531        |
| Royalty and license expense   | 120,060                  | 82,931         |
| Total operating expenses  | 8,470,982                | 8,827,456      |
| Operating loss  | (4,224,332 )             | (5,993,598 )   |
| INTEREST INCOME   | 75,655                   | 253,400        |
| INTEREST EXPENSE  | (7,059 )                 | (2,643 )       |
| GAIN ON STOCK WARRANT LIABILITY   | 713,243                  | 173,242        |
| LOSS BEFORE INCOME TAX BENEFIT  | (3,442,493 )             | (5,569,599 )   |
| INCOME TAX BENEFIT  | 464,162                  | —              |
| NET LOSS  | \$(2,978,331 )           | \$(5,569,599 ) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE   | \$(0.08 )                | \$(0.15 )      |
| WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE | 37,029,462               | 36,299,967     |

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

Table of Contents

## UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|  | Three Months Ended March |                     |
|--|--------------------------|---------------------|
|  | 31,                      |                     |
|  | 2010                     | 2009                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                          |                     |
| Net loss   | \$(2,978,331 )           | \$(5,569,599 )      |
| Adjustments to reconcile net loss to net cash used in operating activities:  |                          |                     |
| Amortization of deferred license fees and deferred revenue                   | (710,626 )               | (663,634 )          |
| Depreciation   | 513,557                  | 517,472             |
| Amortization of intangibles  | 423,768                  | 423,768             |
| Amortization of premium and discount on investments, net                     | (43,619 )                | (144,887 )          |
| Stock-based employee compensation  | 463,133                  | 551,489             |
| Stock-based non-employee compensation  | 40,848                   | 1,998               |
| Non-cash expense under a materials agreement                                 | 243,459                  | 309,375             |
| Stock-based compensation to Board of Directors and Scientific Advisory Board | 149,703                  | 71,524              |
| Gain on stock warrant liability  | (713,243 )               | (173,242 )          |
| (Increase) decrease in assets:   |                          |                     |
| Accounts receivable  | 944,958                  | 637,086             |
| Other current assets   | 38,655                   | (20,988 )           |
| Other assets   | (18,281 )                | (13,719 )           |
| Increase (decrease) in liabilities:  |                          |                     |
| Accounts payable and accrued expenses  | 278,171                  | (498,481 )          |
| Deferred license fees  | 800,000                  | —                   |
| Deferred revenue   | 125,000                  | 66,667              |
| <b>Net cash used in operating activities</b>                                 | <b>(442,848 )</b>        | <b>(4,505,171 )</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                          |                     |
| Purchase of property and equipment   | (89,300 )                | (95,801 )           |
| Purchase of short-term investments   | (35,224,272)             | (36,479,245)        |
| Proceeds from sale of short-term investments                                 | 20,939,983               | 19,655,000          |
| <b>Net cash used in investing activities</b>                                 | <b>(14,373,589)</b>      | <b>(16,920,046)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |                          |                     |
| Proceeds from the issuance of common stock                                   | 62,659                   | —                   |
| Proceeds from the exercise of common stock options and warrants              | 722,682                  | —                   |
| Payment of withholding taxes related to stock-based employee compensation    | (1,116,387 )             | (831,877 )          |
| <b>Net cash used in financing activities</b>                                 | <b>(331,046 )</b>        | <b>(831,877 )</b>   |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                                 | <b>(15,147,483)</b>      | <b>(22,257,094)</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                        | <b>22,701,126</b>        | <b>28,321,581</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                              | <b>\$7,553,643</b>       | <b>\$6,064,487</b>  |

The following non-cash activities occurred:

|  |           |         |
|--|-----------|---------|
| Unrealized (loss) gain on available-for-sale securities  | (33,511 ) | 14,768  |
| Common stock issued to Board of Directors and Scientific Advisory Board that was earned in a previous period | 314,181   | 309,802 |
| Common stock issued to employees that was accrued for in a previous period, net of shares withheld for taxes | 929,552   | 845,745 |
| Common stock issued for royalties that was earned in a previous period                                       | 81,273    | 81,954  |

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



Table of Contents

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. BACKGROUND

Universal Display Corporation (the “Company”) is engaged in the research, development and commercialization of organic light emitting diode (“OLED”) technologies and materials for use in flat panel display, solid-state lighting and other product applications. The Company’s primary business strategy is to develop and license its proprietary OLED technologies to product manufacturers for use in these applications. In support of this objective, the Company also develops new OLED materials and sells those materials to product manufacturers. Through internal research and development efforts and relationships with entities such as Princeton University (“Princeton”), the University of Southern California (“USC”), the University of Michigan (“Michigan”), Motorola, Inc. (“Motorola”) and PPG Industries, Inc. (“PPG Industries”), the Company has established a significant portfolio of proprietary OLED technologies and materials (Notes 5 and 6).

2. BASIS OF PRESENTATION

Interim Financial Information

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company’s financial position as of March 31, 2010, results of operations and cash flows for the three months ended March 31, 2010 and 2009. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company’s latest year-end financial statements, which are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. The results of Company’s operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for the full year.

Management’s Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Cash equivalents, accounts receivable, other current assets and accounts payable are reflected in the accompanying financial statements at fair value due to the short-term nature of those instruments. See Note 4 for a discussion of short-term investments and stock warrant liability.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (“FASB”) issued guidance which will affect the revenue recognition accounting policies for transactions that involve multiple deliverables. The new guidance requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of

each deliverable, even though those deliverables are not sold separately either by the company itself or other vendors. This new guidance eliminates the requirement that all undelivered elements have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. In the absence of vendor-specific objective evidence and third-party evidence for one or more elements in a multiple-element arrangement, companies will estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element whether delivered or undelivered, based on their relative selling prices, regardless of whether those estimated selling prices are evidenced by vendor-specific objective evidence, third-party evidence of fair value or are based on the company's judgment. The new guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. However, early adoption is permitted. If a company elects early adoption and the period of adoption is not the beginning of its fiscal year, the requirements must be applied retrospectively to the beginning of the fiscal year. Retrospective application to prior years is permitted, but not required. In the initial year of application, companies are required to make qualitative and quantitative disclosures about the impact of the changes. In many

Table of Contents

circumstances, the new guidance under these consensus will require significant changes to a company's revenue recognition policies and procedures, including system modifications. The Company does not expect this new guidance to have a material impact on its results of operations or financial position.

In January 2010, the FASB issued amended standards that require additional fair value disclosures. These amended standards require disclosures about inputs and valuation techniques used to measure fair value as well as disclosures about significant transfers, beginning in the first quarter of 2010. Additionally, these amended standards require presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3), beginning in the first quarter of 2011. The adoption of this new guidance did not have an impact on the Company's results of operations or financial position.

In April 2010, the FASB issued guidance allowing the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of a substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to the transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in interim and annual reporting periods beginning after June 15, 2010. Early application and retrospective application are permitted. The Company does not expect this guidance to have a material impact on its results of operations or financial position.

### 3. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company classifies its existing marketable securities as available-for-sale. These securities are, carried at fair market value, with unrealized gains and losses reported in shareholders' equity. Gains or losses on securities sold are based on the specific identification method.

Short-term investments at March 31, 2010 and December 31, 2009 consisted of the following:

| Investment Classification | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>(Losses) | Aggregate<br>Fair<br>Market<br>Value |
|---------------------------|-------------------|---------------------|------------------------|--------------------------------------|
| March 31, 2010 –          |                   |                     |                        |                                      |
| Certificates of deposit   | \$9,342,981       | \$2,545             | \$(8,200 )             | \$9,337,326                          |
| Corporate Bonds           | 18,960,240        | 3,584               | (2,916 )               | 18,960,908                           |
| U.S. Government bonds     | 27,172,125        | —                   | (3,007 )               | 27,169,118                           |
|                           | \$55,475,346      | \$6,129             | \$(14,123 )            | \$55,467,352                         |
| December 31, 2009 –       |                   |                     |                        |                                      |
| Certificates of deposit   | \$8,688,457       | \$1,633             | \$(7,245 )             | \$8,682,845                          |
| U.S. Government bonds     | 32,458,981        | 31,140              | (11 )                  | 32,490,110                           |
|                           | \$41,147,438      | \$32,773            | \$(7,256 )             | \$41,172,955                         |

All short-term investments held at March 31, 2010 will mature within one year.

## 4. FAIR VALUE MEASUREMENTS

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2010:

|                         | Total<br>carrying<br>value as of<br>March 31,<br>2010 | Fair Value Measurements, Using                        |   |  |
|-------------------------|---|---|---|--|
|                         |   | Quoted<br>prices in<br>active<br>markets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| Investments             | \$55,467,352  | \$55,467,352  | \$—   | \$ —   |
| Stock warrant liability | 3,006,922   | —   | —   | 3,006,922  |

7

Table of Contents

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2009:

|                         | Total<br>carrying<br>value as of<br>December<br>31, 2009 | Fair Value Measurements, Using                        |   |  |
|-------------------------|--|---|---|--|
|                         |  | Quoted<br>prices in<br>active<br>markets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| Investments             | \$41,172,955   | \$41,172,955  | \$—   | \$—  |
| Stock warrant liability | 3,720,165  | —   | —   | 3,720,165  |

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on management's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification is determined based on the lowest level input that is significant to the fair value measurement.

The following table is a reconciliation of the changes in fair value of the Company's stock warrant liability for the three months ended March 31, which has been classified in Level 3 in the fair value hierarchy:

|  | 2010        | 2009        |
|--|-------------|-------------|
| Fair value of stock warrant liability, beginning of period   | \$3,720,165 | \$—         |
| Cumulative effect of reclassification of stock warrant liability under Accounting Standards Codification ("ASC") 815 | —           | 2,689,110   |
| Unrealized gain for period   | (713,243 )  | (173,242 )  |
| Fair value of stock warrant liability, end of period   | \$3,006,922 | \$2,515,868 |

The fair value of the stock warrant liability was determined using the Black-Scholes option pricing model with the following inputs at March 31:

|                          | 2010  | 2009       |
|--------------------------|-------|------------|
| Contractual life (years) | 1.4   | 0.9-2.4    |
| Expected volatility      | 74.1% | 68.8-89.5% |
| Risk-free interest rate  | 0.7%  | 0.6-0.8%   |
| Annual dividend yield    | —     | —          |

## 5. RESEARCH AND LICENSE AGREEMENTS WITH PRINCETON, USC AND MICHIGAN

The Company funded OLED technology research at Princeton and, on a subcontractor basis, at USC, for 10 years under a Research Agreement executed with Princeton in August 1997 (the "1997 Research Agreement"). The Principal Investigator conducting work under the 1997 Research Agreement transferred to Michigan in January 2006. Following this, the 1997 Research Agreement was allowed to expire on July 31, 2007.

As a result of the transfer, the Company entered into a new Sponsored Research Agreement with USC to sponsor OLED technology research at USC and, on a subcontractor basis, Michigan. This new Research Agreement (the “2006 Research Agreement”) was effective as of May 1, 2006, and had an original term of three years. The 2006 Research Agreement superseded the 1997 Research Agreement with respect to all work being performed at USC and Michigan. Payments under the 2006 Research Agreement are made to USC on a quarterly basis as actual expenses are incurred. The Company incurred \$2,155,570 in research and development expense for work performed under the 2006 Research Agreement during the original term, which ended on April 30, 2009.

Effective May 1, 2009, the Company amended the 2006 Research Agreement to extend the term of the agreement for an additional four years. Under the amendment, the Company is obligated to pay USC up to \$7,456,294 for work actually performed during the extended term, which runs through April 30, 2013. From May 1, 2009 through March 31, 2010, the Company incurred \$796,679 in research and development expense for work performed under the amended 2006 Research Agreement.

## Table of Contents

On October 9, 1997, the Company, Princeton and USC entered into an Amended License Agreement (as amended, the “1997 Amended License Agreement”) under which Princeton and USC granted the Company worldwide, exclusive license rights, with rights to sublicense, to make, have made, use, lease and/or sell products and to practice processes based on patent applications and issued patents arising out of work performed by Princeton and USC under the 1997 Research Agreement. Under this agreement, the Company is required to pay Princeton royalties for licensed products sold by the Company or its sublicensees. For licensed products sold by the Company, the Company is required to pay Princeton 3% of the net sales price of these products. For licensed products sold by the Company’s sublicensees, the Company is required to pay Princeton 3% of the revenues received by the Company from these sublicensees. These royalty rates are subject to renegotiation for products not reasonably conceivable as arising out of the 1997 Research Agreement if Princeton reasonably determines that the royalty rates payable with respect to these products are not fair and competitive.

The Company is obligated under the 1997 Amended License Agreement to pay to Princeton minimum annual royalties. The minimum royalty payment is \$100,000 per year. The Company accrued royalty expense in connection with this agreement of \$68,392 and \$44,363 for the three months ended March 31, 2010 and 2009, respectively.

The Company also is required under the 1997 Amended License Agreement to use commercially reasonable efforts to bring the licensed OLED technology to market. However, this requirement is deemed satisfied if the Company invests a minimum of \$800,000 per year in research, development, commercialization or patenting efforts respecting the patent rights licensed to the Company.

In connection with entering into the 2006 Research Agreement, the Company amended the 1997 Amended License Agreement to include Michigan as a party to that agreement effective as of January 1, 2006. Under this amendment, Princeton, USC and Michigan have granted the Company a worldwide exclusive license, with rights to sublicense, to make, have made, use, lease and/or sell products and to practice processes based on patent applications and issued patents arising out of work performed under the 2006 Research Agreement. The financial terms of the 1997 Amended License Agreement were not impacted by this amendment.

## 6. EQUITY AND CASH COMPENSATION UNDER THE PPG INDUSTRIES AGREEMENTS

On October 1, 2000, the Company entered into a five-year Development and License Agreement (“Development Agreement”) and a seven-year Supply Agreement (“Supply Agreement”) with PPG Industries. Under the Development Agreement, a team of PPG Industries scientists and engineers assisted the Company in developing its proprietary OLED materials and supplied the Company with these materials for evaluation purposes. Under the Supply Agreement, PPG Industries supplied the Company with its proprietary OLED materials that were intended for resale to customers for commercial purposes.

On July 29, 2005, the Company entered into an OLED Materials Supply and Service Agreement with PPG Industries (the “OLED Materials Agreement”). The OLED Materials Agreement superseded and replaced in their entirety the Development Agreement and Supply Agreement effective as of January 1, 2006, and extended the term of the Company’s relationship with PPG Industries through December 31, 2009. Under the OLED Materials Agreement, PPG Industries continues to assist the Company in developing its proprietary OLED materials and supplying the Company with those materials for evaluation purposes and for resale to its customers. On January 4, 2008, the term of the OLED Materials Agreement was extended for an additional three years, through December 31, 2011.

Under the OLED Materials Agreement, the Company compensates PPG Industries on a cost-plus basis for the services provided during each calendar quarter. The Company is required to pay for some of these services in all cash and for other of the services through the issuance of shares of the Company’s common stock. Up to 50% of the remaining services are payable, at the Company’s sole discretion, in cash or shares of the Company’s common stock, with the

balance payable in all cash. The actual number of shares of common stock issuable to PPG Industries is determined based on the average closing price for the Company's common stock during a specified number of days prior to the end of each calendar half-year period ending on March 31 and September 30. If, however, this average closing price is less than \$6.00, the Company is required to compensate PPG Industries in all cash.

The Company is also required under the OLED Materials Agreement to reimburse PPG Industries for its raw materials and conversion costs for all development chemicals produced on behalf of the Company.

The Company issued 20,409 and 36,826 shares of the Company's common stock to PPG Industries as consideration for services provided by PPG Industries under the OLED Materials Agreement during the three months ended March 31, 2010



Table of Contents

and 2009, respectively. For these shares, the Company recorded \$243,459 and \$309,375 to research and development expense for the three months ended March 31, 2010 and 2009, respectively. Of the shares earned in the three months ended March 31, 2010, 17,446 shares were issued in April 2010.

The Company recorded a credit of \$43,418 and an expense of \$313,788 to research and development expense for the cash portion of the reimbursement of expenses to, and work performed by, PPG Industries for the three months ended March 31, 2010 and 2009, respectively.

## 7. SHAREHOLDERS' EQUITY

|  | Series A                          |         | Common Stock |           | Additional<br>Paid-In<br>Capital | Unrealized<br>(Loss)<br>Gain on<br>Available-for-<br>Sale<br>Securities | Accumulated<br>Deficit | Total<br>Shareholders'<br>Equity |
|--|-----------------------------------|---------|--------------|-----------|----------------------------------|---|------------------------|----------------------------------|
|  | Nonconvertible<br>Preferred Stock |         |              |           |                                  |   |                        |                                  |
|  | Shares                            | Amount  | Shares       | Amount    |                                  |   |                        |                                  |
| BALANCE,<br>JANUARY 1,<br>2010   | 200,000                           | \$2,000 | 36,818,440   | \$368,184 | \$256,340,530                    | \$25,517  | \$(197,108,705)        | \$59,627,526                     |
| Exercise of<br>common stock<br>options and<br>warrants (A)   | —                                 | —       | 75,750       | 758       | 721,924                          | —   | —                      | 722,682                          |
| Stock-based<br>employee<br>compensation, net<br>of shares withheld<br>for taxes (B)                | —                                 | —       | 637,978      | 6,379     | 854,077                          | —   | —                      | 860,456                          |
| Stock-based<br>non-employee<br>compensation  | —                                 | —       | 195          | 2         | 40,846                           | —   | —                      | 40,848                           |
| Issuance of<br>common stock to<br>Board of<br>Directors and<br>Scientific<br>Advisory Board<br>(C) | —                                 | —       | 44,670       | 447       | 463,437                          | —   | —                      | 463,884                          |
| Issuance of<br>common stock in<br>connection with<br>materials and<br>license<br>agreements (D)    | —                                 | —       | 10,163       | 102       | 116,517                          | —   | —                      | 116,619                          |
| Issuance of<br>common stock<br>under an<br>Employee Stock<br>Purchase Plan                         | —                                 | —       | 6,263        | 63        | 62,596                           | —   | —                      | 62,659                           |

|  |         |         |            |           |               |            |               |              |
|--|---------|---------|------------|-----------|---------------|------------|---------------|--------------|
| Net loss   | —       | —       | —          | —         | —             | —          | (2,978,331 )  | (2,978,331 ) |
| Unrealized loss on available-for-sale securities | —       | —       | —          | —         | —             | (33,511)   | —             | (33,511 )    |
| Comprehensive loss                               |         |         |            |           |               |            |               | (3,011,842 ) |
| BALANCE, MARCH 31, 2010                          | 200,000 | \$2,000 | 37,593,459 | \$375,935 | \$258,599,927 | \$(7,994 ) | (200,087,036) | \$58,882,832 |

- (A) During the three months ended March 31, 2010, the Company issued 75,750 shares of common stock upon the exercise of common stock options and warrants, resulting in cash proceeds of \$722,682.
- (B) Includes \$1,513,710 (106,825 shares) that was accrued for in a previous period and charged to expense when earned, but issued in 2010, less shares withheld for taxes in the amount of \$584,158 (41,225 shares).
- (C) Includes \$314,181 (38,910 shares) that was earned in a previous period and charged to expense when earned, but issued in 2010.
- (D) The Company was required to pay Motorola royalties of \$162,558 for the year ended December 31, 2009. In March 2010, the Company issued to Motorola 7,200 shares of the Company's common stock, valued at \$81,273, and paid Motorola \$81,285 in cash to satisfy this royalty obligation.

Table of Contents

8. STOCK-BASED COMPENSATION

The Company recognizes in its results of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. The grant-date fair value of stock options is determined using the Black-Scholes valuation model. The fair value of share-based awards is recognized as compensation expense on a straight-line basis over the requisite service period, net of estimated forfeitures. The Company relies primarily upon historical experience to estimate expected forfeitures and recognizes compensation expense on a straight-line basis from the date of the grant. The Company issues new shares upon the respective exercise, grant or vesting of share-based awards, as applicable.

Equity Compensation Plan

In 1995, the Board of Directors of the Company adopted a Stock Option Plan (the “1995 Plan”), under which options to purchase a maximum of 500,000 shares of the Company’s common stock were authorized to be granted at prices not less than the fair market value of the common stock on the date of the grant, as determined by the Compensation Committee of the Board of Directors. Through March 31, 2010, the Company’s shareholders have approved increases in the number of shares reserved for issuance under the 1995 Plan to 7,000,000, and have extended the term of the plan through 2015. The 1995 Plan was also amended and restated in 2003, and is now called the Equity Compensation Plan. The Equity Compensation Plan provides for the granting of incentive and nonqualified stock options, shares of common stock, stock appreciation rights and performance units to employees, directors and consultants of the Company. Stock options are exercisable over periods determined by the Compensation Committee, but for no longer than 10 years from the grant date.

During the three months ended March 31, 2010, the Company did not grant any options to employees. The Company recorded as compensation expense related to the vesting of all employee stock options a charge of \$22,232 and a credit of \$3,796 for the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2010, the Company also granted to a non-employee options to purchase 10,000 shares of the Company’s common stock. These stock options vested immediately and have exercise prices of \$8.56 and \$9.44. The fair value of the options granted was \$38,366, which was charged to research and development expense for the three months ended March 31, 2010.

During the three months ended March 31, 2010, the Company granted 602,569 shares of restricted stock to employees. These shares of restricted stock had a fair value of \$7,818,403 on the date of grant and will vest in equal increments annually over three to five years from the date of grant, provided that the grantee is still an employee of the Company on the applicable vesting date.

For the three months ended March 31, 2010 and 2009, the Company recorded compensation expenses related to the vesting of restricted stock awards previously granted to employees. These expenses were charged to general and administrative expense in amounts of \$295,815 and \$241,636, and to research and development expense in amounts of \$118,149 and \$116,702, for the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2010, the Company also granted to employees 655 shares of common stock, which shares were issued and fully vested at the date of grant. For the fair value of fully-vested shares that were issued, the Company recorded charges to research and development expense of \$8,500 and \$10,490 for the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2010, the Company granted to non-employees 195 shares of common stock, which shares were issued and fully vested at the date of grant. For the fair value of fully-vested shares that were issued, the Company recorded charges to research and development expense of \$2,482 and \$1,998 for the three months ended March 31, 2010 and 2009, respectively.

In connection with all common stock issued to employees for the three months ended March 31, 2010, 78,767 shares of common stock with a fair value of \$1,116,387 were withheld in satisfaction of tax withholding obligations.

For the three months ended March 31, 2010, the Company issued 5,760 shares of common stock to members of its Board of Directors as partial compensation for services performed. For the fair value of shares issued to its Board of Directors, the Company recorded charges to general and administrative expense of \$67,631 and \$58,830 for the three months ended March 31, 2010 and 2009, respectively.

## Table of Contents

For the three months ended March 31, 2010, the Company granted a total of 16,936 shares of restricted stock to certain members of its Scientific Advisory Board. These shares of restricted stock will vest and be issued in equal increments annually over three years from the date of grant, provided that the grantee is still engaged as a consultant of the Company on the applicable vesting date. The Company recorded charges to research and development expense for the vesting of all restricted stock awards to its Scientific Advisory Board of \$82,072 and \$22,499 for the three months ended March 31, 2010 and 2009, respectively.

### Employee Stock Purchase Plan

On April 7, 2009, the Board of Directors of the Company adopted an Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's shareholders and became effective on June 25, 2009. The Company has reserved 1,000,000 shares of common stock for issuance under the ESPP. Unless sooner terminated by the Board of Directors, the ESPP will expire when all reserved shares have been issued.

Eligible employees may elect to contribute to the ESPP through payroll deductions during consecutive three-month purchase periods, the first of which began on July 1, 2009. Each employee who elects to participate will be deemed to have been granted an option to purchase shares of the Company's common stock on the first day of the purchase period. Unless the employee opts out during the purchase period, the option will automatically be exercised on the last day of the period, which is the purchase date, based on the employee's accumulated contributions to the ESPP. The purchase price will equal 85% of the lesser of the price per share of common stock on the first day of the period or the last day of the period.

Employees may allocate up to 10% of their base compensation to purchase shares of common stock under the ESPP; however, each employee may purchase no more than 12,500 shares on a given purchase date, and no employee may purchase more than \$25,000 of common stock under the ESPP during a given calendar year.

For three months ended March 31, 2010, the Company issued 6,263 shares of its common stock under the ESPP, resulting in proceeds of \$62,659. For the three months ended March 31, 2010, the Company recorded expenses of \$5,975 to general and administrative expense and \$11,490 to research and development expense related to the ESPP, which expenses equal the amount of the discount and the value of the look-back feature.

### Net Loss Per Common Share

Basic net loss per common share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period. Diluted net loss per common share reflects the potential dilution from the exercise or conversion of securities into common stock, the impact of unvested restricted stock awards and shares to be issued under the ESPP. For the three months ended March 31, 2010 and 2009, the effects of the exercise of the combined outstanding stock options and warrants and unvested restricted stock awards of 4,379,049 and 4,429,182, respectively, and the impact of shares to be issued under the ESPP, which was minor, were excluded from the calculation of diluted EPS as the impact would have been antidilutive.

## 9. COMMITMENTS AND CONTINGENCIES

### Commitments

Under the 2006 Research Agreement with USC, the Company is obligated to make certain payments to USC based on work performed by USC under that agreement, and by Michigan under its subcontractor agreement with USC. See Note 5 for further explanation.

Under the terms of the 1997 Amended License Agreement, the Company is required to make minimum royalty payments to Princeton. See Note 5 for further explanation.

The Company is required under a license agreement with Motorola to pay royalties to Motorola based on gross revenues earned by the Company from its sales of OLED products or components, or from its OLED technology licensees, whether or not these revenues relate specifically to inventions claimed in the patent rights licensed from Motorola. All royalty payments are payable, at the Company's discretion, in either all cash or up to 50% in shares of the Company's common stock and the remainder in cash. The number of shares of common stock used to pay the stock portion of the royalty payment is calculated by dividing the amount to be paid in stock by the average daily closing price per share of the Company's common stock over the 10 trading days ending two business days prior to the date the stock is issued. The Company accrued royalty expense in connection with this agreement of \$49,168 and \$36,067 for the three months ended March 31, 2010 and 2009, respectively.

## Table of Contents

### Opposition to European Patent No. 0946958

On December 8, 2006, Cambridge Display Technology, Ltd. (“CDT”), which was acquired in 2007 by Sumitomo Chemical Company (“Sumitomo”), filed a Notice of Opposition to European Patent No. 0946958 (the “EP ‘958 patent”). The EP ‘958 patent, which was issued on March 8, 2006, is a European counterpart patent to U.S. patents 5,844,363, 6,602,540, 6,888,306 and 7,247,073. These patents relate to the Company’s FOLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

The European Patent Office (the “EPO”) conducted an Oral Hearing in this matter on October 6, 2009. No representative from CDT attended the Oral Hearing. At the conclusion of the Oral Hearing, the EPO panel announced its decision to reject the opposition and to maintain the patent as granted. The minutes of the Oral Hearing were dispatched on October 27, 2009, and the EPO issued its official decision on November 26, 2009.

CDT filed an appeal to the EPO decision on January 25, 2010. CDT timely filed its grounds for the appeal with the EPO on or about April 1, 2010. The EPO has now set August 12, 2010 as the due date for the Company to file its reply to this appeal. At this time, Company management continues to believe that the EPO decision will be upheld on appeal, though the Company cannot make any assurances of this result.

### Opposition to European Patent No. 1449238

On March 8, 2007, Sumation Company Limited (“Sumation”), a joint venture between Sumitomo and CDT, filed a first Notice of Opposition to European Patent No. 1449238 (the “EP ‘238 patent”). The EP ‘238 patent, which was issued on November 2, 2006, is a European counterpart patent, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009. These patents and this patent application relate to the Company’s PHOLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

Two other parties filed additional oppositions to the EP ‘238 patent just prior to the August 2, 2007 expiration date for such filings. On July 24, 2007, Merck Patent GmbH, of Darmstadt, Germany, filed a second Notice of Opposition to the EP ‘238 patent, and on July 27, 2007, BASF Aktiengesellschaft, of Mannheim, Germany, filed a third Notice of Opposition to the EP ‘238 patent. The EPO combined all three oppositions into a single opposition proceeding.

The EPO set a January 6, 2008 due date for the Company to file its response to the opposition. The Company requested a two-month extension to file this response, and the Company subsequently filed its response in a timely manner. The Company is still waiting for the EPO to notify it of the date of the oral hearing. The Company is also waiting to see whether the other parties in the opposition file any additional documents, to which the Company may respond.

At this time, Company management cannot make any prediction as to the probable outcome of the opposition. However, based on an analysis of the evidence presented to date, Company management continues to believe there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

### Invalidation Trial in Japan for Japan Patent No. 3992929

On April 19, 2010, the Company received a copy of a Notice of Invalidation Trial from the Japanese Patent Office (the “JPO”) for its Japan Patent No. 3992929 (the “JP ‘929 patent”), which was issued on August 3, 2007. The request for

the Invalidation Trial was filed by Semiconductor Energy Laboratory Co., Ltd., of Kanagawa, Japan. The JP '929 patent is a Japanese counterpart patent, in part, to the above-noted EP '238 patent and to the above-noted family of U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009.

The JPO has set a due date of July 15, 2010 for the Company to file its response to the evidence and arguments submitted with the request for the Invalidation Trial. At this time, Company management cannot make any prediction as to the probable outcome of the Invalidation Trial. The Company has not yet had an opportunity to study the evidence presented in the invalidation request. However, based on its current knowledge, Company management believes there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.



## Table of Contents

### Opposition to European Patent No. 1394870

On about April 20, 2010, five European companies filed Notices of Opposition to European Patent No. 1394870 (the “EP ‘270 patent”). The EP ‘270 patent, which was issued on July 22, 2009, is a European counterpart patent, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542 and 7,563,519; and to pending U.S. patent application 12/489,045, filed on June 22, 2009. These patents and this patent application relate to the Company’s PHOLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding. The five companies are Merck Patent GmbH, of Darmstadt, Germany; BASF Schweitz AG of Basil, Switzerland; Osram GmbH of Munich, Germany; Siemens Aktiengesellschaft of Munich, Germany; and Koninklijke Philips Electronics N.V., of Eindhoven, The Netherlands.

The EPO has not yet set a due date for the Company to file its response to the oppositions. At this time, Company management cannot make any prediction as to the probable outcome of the oppositions, which may be combined by the EPO into a single opposition proceeding. The Company has not yet had an opportunity to study the evidence presented in the opposition documents. However, based on its current knowledge, Company management believes there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

### 10. CONCENTRATION OF RISK

Contract research revenue, which is included in developmental revenue in the accompanying statement of operations, of \$1,131,902 and \$895,586 for the three months ended March 31, 2010 and 2009, respectively, has been derived from contracts with United States government agencies. Revenues derived from contracts with government agencies represented 27% and 32% of consolidated revenue for the three months ended March 31, 2010 and 2009, respectively.

Two non-government customers accounted for approximately 48% and 40% of consolidated revenue for the three months ended March 31, 2010 and 2009, respectively. Accounts receivable from these customers were \$1,039,570 at March 31, 2010. Revenues from outside of North America represented 71% and 66% of consolidated revenue for the three months ended March 31, 2010 and 2009, respectively.

All chemical materials sold by the Company were purchased from one supplier. See Note 6.

### 11. INCOME TAXES

During the three months ended March 31, 2010, the Company sold approximately \$3.8 million of its state-related income tax net operating losses (NOLs) and \$194,088 of its research and development tax credits under the New Jersey Technology Tax Certificate Transfer Program and received proceeds of \$464,162. The Company recorded these proceeds as an income tax benefit.

### 12. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

On March 18, 2010, the Compensation Committee and the Board of Directors of the Company approved and adopted the Universal Display Corporation Supplemental Executive Retirement Plan (the “SERP”). The SERP became effective as of April 1, 2010. The Company will record a non-current liability and accumulated other comprehensive loss relating to prior service cost under the SERP effective April 1, 2010, which is estimated to be approximately \$5.6 million. This amount is subject to finalization of actuarial estimates which are currently in process.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes above.

CAUTIONARY STATEMENT  
CONCERNING FORWARD-LOOKING STATEMENTS

This discussion and analysis contains some "forward-looking statements." Forward-looking statements concern our possible or assumed future results of operations, including descriptions of our business strategies and customer relationships. These

## Table of Contents

statements often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “seek,” “will,” “may” expressions. These statements are based on assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances.

As you read and consider this discussion and analysis, you should not place undue reliance on any forward-looking statements. You should understand that these statements involve substantial risk and uncertainty and are not guarantees of future performance or results. They depend on many factors that are discussed further in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2009, as supplemented by any disclosures in Item 1A of Part II below. Changes or developments in any of these areas could affect our financial results or results of operations, and could cause actual results to differ materially from those contemplated in the forward-looking statements.

All forward-looking statements speak only as of the date of this report or the documents incorporated by reference, as the case may be. We do not undertake any duty to update any of these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

## OVERVIEW

We are a leader in the research, development and commercialization of organic light emitting diode, or OLED, technologies for use in flat panel display, solid-state lighting and other applications. Since 1994, we have been exclusively engaged, and expect to continue to be exclusively engaged, in funding and performing research and development activities relating to OLED technologies and materials, and in attempting to commercialize these technologies and materials. Our revenues are generated through contract research, sales of development and commercial chemicals, technology development and evaluation agreements and license fees and royalties. In the future, we anticipate that revenues from licensing our intellectual property will become a more significant part of our revenue stream.

While we have made significant progress over the past few years developing and commercializing our PHOLED and other OLED technologies and materials, we have incurred significant losses and will likely continue to do so until our OLED technologies and materials become more widely adopted by product manufacturers. We have incurred significant losses since our inception, resulting in an accumulated deficit of \$200,087,036 as of March 31, 2010.

We anticipate fluctuations in our annual and quarterly results of operations due to uncertainty regarding, among other factors:

- the timing of our receipt of license fees and royalties, as well as fees for future technology development and evaluation;
- the timing and volume of sales of our OLED materials for both commercial usage and evaluation purposes;
- the timing and magnitude of expenditures we may incur in connection with our ongoing research and development activities; and
- the timing and financial consequences of our formation of new business relationships and alliances.

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

We had an operating loss of \$4,224,332 for the three months ended March 31, 2010, compared to an operating loss of \$5,993,599 for the three months ended March 31, 2009. The decrease in operating loss was due to:

- an increase in revenue of \$1,412,792; and
- a decrease in operating expenses of \$356,474.

We had a net loss of \$2,978,331 (or \$0.08 per basic and diluted share) for the three months ended March 31, 2010, compared to a net loss of \$5,569,599 (or \$0.15 per basic and diluted share) for the three months ended March 31, 2009. The decrease in net loss was primarily due to:

Table of Contents

- an increase in gain on stock warrant liability of \$540,001;
- an income tax benefit of \$464,162; and
- a decrease in total operating loss of \$1,769,266.

Our revenues were \$4,246,650 for the three months ended March 31, 2010, compared to \$2,833,858 for the three months ended March 31, 2009.

Commercial revenue increased to \$1,830,147 for the three months ended March 31, 2010, compared to \$1,369,137 for the three months ended March 31, 2009. Commercial revenue relates to the incorporation of our OLED technologies and materials into our customers' commercial products, and includes commercial chemical revenue, royalty and license revenues, and commercialization assistance revenue. The increase in commercial revenue was primarily due to the following:

- an increase of \$287,698 in royalty revenue, which mainly represented royalties received under our patent license agreement with Samsung SMD Co., Ltd. ("Samsung SMD");
- an increase of \$106,760 in license fees, principally due to a license agreement we entered into with Showa Denko K.K. in December 2009 and license fees received in connection with increased sales of our materials to a customer; and
- an increase of \$42,235 in commercial chemical revenue.

We cannot accurately predict how long our material sales to particular customers will continue, as they frequently update and alter their product offerings in response to market demands. Continued sales of our OLED materials to these customers will depend on several factors, including pricing, availability, continued technical improvement and competitive product offerings.

Developmental revenue increased to \$2,416,503 for the three months ended March 31, 2010, compared to \$1,464,721 for the three months ended March 31, 2009. Developmental revenue relates to OLED technology and material development and evaluation activities for which we are paid, and includes contract research revenue, development chemical revenue and technology development revenue. The increase in developmental revenue was primarily due to the following:

- an increase of \$745,822 in development chemical revenue, mainly due to increased purchases of development chemicals by a customer; and
- an increase of \$236,316 in contract research revenue, principally to the timing of work performed and costs incurred in connection with existing government contracts, as well as an overall increase in value of our government contracts.

Cost of chemicals sold increased to \$460,786 for the three months ended March 31, 2010, compared to \$170,987 for the three months ended March 31, 2009, based on the aforementioned increase in chemical sales.

We incurred research and development expenses of \$4,466,631 for the three months ended March 31, 2010, compared to \$5,219,062 for the three months ended March 31, 2009. The decrease was mainly due to:

- decreased costs of \$941,820 incurred under our agreement with PPG Industries; and

- decreased costs of \$91,649 under our sponsored research agreements; partially offset by
- increased employee costs of \$215,596 and an overall increase in other operating costs of \$65,442.

Selling, general and administrative expenses were \$2,642,246 for the three months ended March 31, 2010, compared to \$2,622,945 for the three months ended March 31, 2009. Selling, general and administrative expenses remained relatively consistent over these corresponding periods.

Interest income decreased to \$75,655 for the three months ended March 31, 2010, compared to \$253,400 for the three months ended March 31, 2009. The decrease was mainly attributable to decreased rates of return on investments during three months ended March 31, 2010, compared to rates of return during 2009. Due to current market conditions, we anticipate that these lower rates of return will continue for the foreseeable future.

## Table of Contents

At March 31, 2010, we had outstanding warrants to purchase 744,452 shares of common stock, which contain a “down-round” provision requiring liability classification. The change in fair value of these warrants as well as the expiration of warrants with a similar provision during the period resulted in a \$713,243 non-cash gain on our statement of operations for the three months ended March 31, 2010, compared to a \$173,242 non-cash gain for the three months ended March 31, 2009. We will continue to report the warrants as a liability, with changes in fair value recorded in the statement of operations, until such time as these warrants are exercised or expire.

During the three months ended March 31, 2010, we sold approximately \$3.8 million of our state-related income tax net operating losses (NOLs) and \$194,088 of our research and development tax credits under the New Jersey Technology Tax Certificate Transfer Program. We received proceeds of \$464,162 from our sale of these NOLs and research and development tax credits, and we recorded these proceeds as an income tax benefit. In past years, we completed our sales of state-related tax NOLs during the fourth quarter of the year.

## Liquidity and Capital Resources

As of March 31, 2010, we had cash and cash equivalents of \$7,553,643 and short-term investments of \$55,467,352, for a total of \$63,020,995. This compares to cash and cash equivalents of \$22,701,126 and short-term investments of \$41,172,955, for a total of \$63,874,081, as of December 31, 2009. The decrease in cash and cash equivalents and short-term investments of \$853,086 was primarily due to the usage of cash in operations and financing activities.

Cash used in operating activities was \$442,848 for the three months ended March 31, 2010, compared to \$4,505,171 for the same period in 2009. The decrease in cash used in operating activities was mainly due to the following:

- a decrease in net loss of \$2,064,384, which amount excludes the impact of non-cash items;
- the receipt of \$925,000 in cash payments during the three months ended March 31, 2010 for license rights and as advanced payments under a government contract, compared to \$66,667 in corresponding cash payments received during the three months ended March 31, 2009;
- the impact of the timing of payment of accounts payable and accrued expenses of \$776,653;  
and
- the impact of the timing of receipt of accounts receivable of \$307,872.

Cash used in investing activities was \$14,373,589 for the three months ended March 31, 2010, compared to \$16,920,046 for the same period in 2009. The decrease is mainly due to the use of cash to finance operations.

Cash used in financing activities was \$331,046 for the three months ended March 31, 2010, compared to \$831,877 for the same period in 2009. In the first three months of 2010, we used \$1,116,387 for the payment of withholding taxes related to stock based compensation, compared \$831,877 used for corresponding payments in the first three months of 2009. This was partially offset by the receipt of proceeds of \$722,682 from the exercise of options and warrants to purchase shares of our common stock during the first three months of 2010 and \$62,659 in proceeds related to our ESPP.

Working capital was \$53,480,575 as of March 31, 2010, compared to \$53,663,617 as of December 31, 2009. We anticipate, based on our internal forecasts and assumptions relating to our operations (including, among others, assumptions regarding our working capital requirements, the progress of our research and development efforts, the availability of sources of funding for our research and development work, and the timing and costs associated with the preparation, filing, prosecution, maintenance, defense and enforcement of our patents and patent applications), that we

have sufficient cash, cash equivalents and short-term investments to meet our obligations for at least the next 12 months.

We believe that potential additional financing sources for us include long-term and short-term borrowings, public and private sales of our equity and debt securities and the receipt of cash upon the exercise of warrants and options. It should be noted, however, that additional funding may be required in the future for research, development and commercialization of our OLED technologies and materials, to obtain, maintain and enforce patents respecting these technologies and materials, and for working capital and other purposes, the timing and amount of which are difficult to ascertain. There can be no assurance that additional funds will be available to us when needed, on commercially reasonable terms or at all, particularly in the current economic environment.



## Table of Contents

### Critical Accounting Policies

Refer to our Annual Report on Form 10-K for the year ended December 31, 2009, for a discussion of our critical accounting policies. There have been no changes in critical accounting policies to date in 2010.

### Contractual Obligations

Refer to our Annual Report on Form 10-K for the year ended December 31, 2009, for a discussion of our contractual obligations. There have been no changes in our contractual obligations to date in 2010.

### Off-Balance Sheet Arrangements

Refer to our Annual Report on Form 10-K for the year ended December 31, 2009, for a discussion of off-balance sheet arrangements. As of March 31, 2010, we had no off-balance sheet arrangements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not utilize financial instruments for trading purposes and hold no derivative financial instruments, other financial instruments or derivative commodity instruments that could expose us to significant market risk other than our short-term investments and our stock warrant liability disclosed in Note 4 to the consolidated financial statements included herein. We invest in investment grade financial instruments to reduce our exposure. Our primary market risk exposure with regard to financial instruments is to changes in interest rates, which would impact interest income earned on investments.

We record as a liability the fair value of warrants to purchase 744,452 shares of our common stock. The fair value of the stock warrant liability is determined using the Black-Scholes option valuation model and is therefore sensitive to changes in the stock price and volatility of our common stock. Our primary market risk exposure to the stock warrant liability is to changes in the stock price, which would impact the valuation of the stock warrant liability. Increases in our stock price or the expected volatility of our common stock would increase the fair value of the stock warrant liability and therefore result in an additional loss on the statement of operations. Decreases in these items would decrease the fair value of the stock warrant liability and therefore result in an additional gain on the statement of operations.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. However, a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Opposition to European Patent No. 0946958

On December 8, 2006, Cambridge Display Technology, Ltd. (“CDT”), which was acquired in 2007 by Sumitomo Chemical Company (“Sumitomo”), filed a Notice of Opposition to European Patent No. 0946958 (the “EP ‘958 patent”). The EP ‘958 patent, which was issued on March 8, 2006, is a European counterpart patent to U.S. patents 5,844,363, 6,602,540, 6,888,306 and 7,247,073. These patents relate to our FOLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

The European Patent Office (the “EPO”) conducted an Oral Hearing in this matter on October 6, 2009. No representative from CDT attended the Oral Hearing. At the conclusion of the Oral Hearing, the EPO panel announced its decision to reject the opposition and to maintain the patent as granted. The minutes of the Oral Hearing were dispatched on October 27, 2009, and the EPO issued its official decision on November 26, 2009.

CDT filed an appeal to the EPO decision on January 25, 2010. CDT timely filed its grounds for the appeal with the EPO on or about April 1, 2010. The EPO has now set August 12, 2010 as the due date for filing our reply to this appeal. At this time, we continue to believe that the EPO decision will be upheld on appeal, though we cannot make any assurances of this result.

Opposition to European Patent No. 1449238

On March 8, 2007, Sumation Company Limited (“Sumation”), a joint venture between Sumitomo and CDT, filed a first Notice of Opposition to European Patent No. 1449238 (the “EP ‘238 patent”). The EP ‘238 patent, which was issued on November 2, 2006, is a European counterpart patent, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009. These patents and this patent application relate to our PHOLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

Two other parties filed additional oppositions to the EP ‘238 patent just prior to the August 2, 2007 expiration date for such filings. On July 24, 2007, Merck Patent GmbH, of Darmstadt, Germany, filed a second Notice of Opposition to the EP ‘238 patent, and on July 27, 2007, BASF Aktiengesellschaft, of Mannheim, Germany, filed a third Notice of Opposition to the EP ‘238 patent. The EPO combined all three oppositions into a single opposition proceeding.

The EPO set a January 6, 2008 due date for us to file our response to the opposition. We requested a two-month extension to file this response, and we subsequently filed our response in a timely manner. We are still waiting for the EPO to notify us of the date of the oral hearing. We are also waiting to see whether the other parties in the opposition file any additional documents, to which we may respond.

At this time, we cannot make any prediction as to the probable outcome of the opposition. However, based on an analysis of the evidence presented to date, we continue to believe there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Invalidation Trial in Japan for Japan Patent No. 3992929

On April 19, 2010, we received a copy of a Notice of Invalidation Trial from the Japanese Patent Office (the “JPO”) for our Japan Patent No. 3992929 (the “JP ‘929 patent”), which was issued on August 3, 2007. The request for the Invalidation Trial was filed by Semiconductor Energy Laboratory Co., Ltd., of Kanagawa, Japan. The JP ‘929 patent is a Japanese counterpart patent, in part, to the above-noted EP ‘238 patent and to the above-noted family of U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009.

The JPO has set a due date of July 15, 2010 for us to file our response to the evidence and arguments submitted with the request for the Invalidation Trial. At this time, we cannot make any prediction as to the probable outcome of the Invalidation Trial. We have not yet had an opportunity to study the evidence presented in the invalidation request. However, based on our current knowledge, we believe there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Table of Contents

## Opposition to European Patent No. 1394870

On about April 20, 2010, five European companies filed Notices of Opposition to European Patent No. 1394870 (the “EP ‘270 patent”). The EP ‘270 patent, which was issued on July 22, 2009, is a European counterpart patent, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542 and 7,563,519; and to pending U.S. patent application 12/489,045, filed on June 22, 2009. These patents and this patent application relate to our PHOLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding. The five companies are Merck Patent GmbH, of Darmstadt, Germany; BASF Schweitz AG of Basil, Switzerland; Osram GmbH of Munich, Germany; Siemens Aktiengesellschaft of Munich, Germany; and Koninklijke Philips Electronics N.V., of Eindhoven, The Netherlands.

The EPO has not yet set a due date for us to file our response to the oppositions. At this time, we cannot make any prediction as to the probable outcome of the oppositions, which may be combined by the EPO into a single opposition proceeding. We have not yet had an opportunity to study the evidence presented in the opposition documents. However, based on our current knowledge, we believe there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

## ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2009.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuance of Unregistered Shares

During the quarter ended March 31, 2010, we issued an aggregate of 20,000 unregistered shares of our common stock upon the exercise of outstanding warrants. The warrants had an exercise price of \$12.39 per share. All of the shares were issued in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended.

## Withholding of Shares to Satisfy Tax Liabilities

During the quarter ended March 31, 2010, we acquired 802 shares of common stock through transactions related to the vesting of restricted share awards previously granted to certain employees. Upon vesting, the employees turned in shares of common stock in amounts sufficient to pay their minimum statutory tax withholding at rates required by the relevant tax authorities.

The following table provides information relating to the shares we received during the first quarter of 2010.

| Period                 | Total<br>Number of<br>Shares<br>Purchased | Weighted<br>Average<br>Price Paid<br>per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Program | Approximate<br>Dollar<br>Value of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Program |
|------------------------|---|--|---|---|
| January 1 – January 31 | —   | \$—  | n/a   | --  |

|                          |     |         |     |    |
|--------------------------|-----|---------|-----|----|
| February 1 – February 28 | 201 | 10.99   | n/a | -- |
| March 1 – March 31       | 601 | 11.67   | n/a | -- |
| Total                    | 802 | \$11.50 | n/a | -- |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

20

---

Table of Contents

## ITEM 6. EXHIBITS

The following is a list of the exhibits included as part of this report. Where so indicated by footnote, exhibits that were previously included are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated parenthetically, together with a reference to the filing indicated by footnote.

| Exhibit<br>Number | Description   |
|-------------------|---|
| 10.1*             | Amendment No. 3 to the Commercial Supply Agreement between the registrant and LG Display Co., Ltd., dated as of March 10, 2010  |
| 10.2*+            | Universal Display Corporation Supplemental Executive Retirement Plan+   |
| 10.3*+            | Universal Display Corporation Equity Retention Agreement with Steven V. Abramson+   |
| 10.4*+            | Universal Display Corporation Equity Retention Agreement with Sidney D. Rosenblatt+   |
| 31.1*             | Certifications of Steven V. Abramson, Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)  |
| 31.2*             | Certifications of Sidney D. Rosenblatt, Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)  |
| 32.1**            | Certifications of Steven V. Abramson, Chief Executive Officer, as required by Rule 13a-14(b) or Rule 15d-14(b), and by 18 U.S.C. Section 1350. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)   |
| 32.2**            | Certifications of Sidney D. Rosenblatt, Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b), and by 18 U.S.C. Section 1350. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) |

\* Filed herewith.

\*\* Furnished herewith.

+ Compensatory plan or arrangement.

Note: Any of the exhibits listed in the foregoing index not included with this report may be obtained, without charge, by writing to Mr. Sidney D. Rosenblatt, Corporate Secretary, Universal Display Corporation, 375 Phillips Boulevard, Ewing, New Jersey 08618.



SIGNATURES

Pursuant to the requirements 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:

UNIVERSAL DISPLAY CORPORATION

Date: May 10, 2010

By: /s/ Sidney D. Rosenblatt  
Sidney D. Rosenblatt  
Executive Vice President and Chief Financial  
Officer