

UNIVERSAL DISPLAY CORP \PA\

Form 10-Q

May 09, 2007

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 4, 2007, the registrant had outstanding 31,954,272 shares of common stock.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets March 31, 2007 and December 31, 2006</u>	3
<u>Consolidated Statements of Operations Three months ended March 31, 2007 and 2006</u>	4
<u>Consolidated Statements of Cash Flows Three months ended March 31, 2007 and 2006</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	15
<u>Item 4. Controls and Procedures</u>	15

PART II OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	15
<u>Item 1A. Risk Factors</u>	16
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	16
<u>Item 3. Defaults Upon Senior Securities</u>	16
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	16
<u>Item 5. Other Information</u>	16
<u>Item 6. Exhibits</u>	16
<u>CERTIFICATION OF CHIEF EXECUTIVE OFFICER</u>	
<u>CERTIFICATION OF CHIEF FINANCIAL OFFICER</u>	
<u>CERTIFICATION OF CEO PURSUANT TO 18 U.S.C. SECTION 1350</u>	
<u>CERTIFICATION OF CFO PURSUANT TO 18 U.S.C. SECTION 1350</u>	

Table of Contents

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 24,524,178	\$ 31,097,533
Short-term investments	22,262,598	17,957,752
Accounts receivable	1,770,851	2,113,263
Inventory	25,265	30,598
Other current assets	639,676	606,267
Total current assets	49,222,568	51,805,413
PROPERTY AND EQUIPMENT, net	13,783,819	14,074,093
ACQUIRED TECHNOLOGY, net	5,895,720	6,319,488
INVESTMENTS	95,789	42,770
OTHER ASSETS	97,272	89,772
TOTAL ASSETS	\$ 69,095,168	\$ 72,331,536
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,137,882	\$ 1,808,869
Accrued expenses	3,277,851	5,245,536
Deferred license fees	7,178,268	7,178,268
Deferred revenue	900,000	150,000
Total current liabilities	12,494,001	14,382,673
DEFERRED LICENSE FEES	2,838,600	2,966,500
DEFERRED REVENUE	600,000	600,000
Total liabilities	15,932,601	17,949,173
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS EQUITY:		
Preferred Stock, par value \$.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), 300,000 shares of Series B Convertible Preferred Stock authorized and none	2,000	2,000

outstanding, 5,000 shares of Series C-1 Convertible Preferred Stock authorized and none outstanding, 5,000 shares of Series D Convertible Preferred Stock authorized and none outstanding		
Common Stock, par value \$0.01 per share, 50,000,000 shares authorized, 31,681,012 and 31,385,408 shares issued and outstanding at March 31, 2007 and December 31, 2006 respectively	316,810	313,854
Additional paid-in-capital	202,811,276	199,505,981
Unrealized loss on available for sale securities	(27,092)	(82,846)
Accumulated deficit	(149,940,427)	(145,356,626)
Total shareholders equity	53,162,567	54,382,363
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 69,095,168	\$ 72,331,536

The accompanying notes are an integral part of these statements.

Table of Contents

**UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)**

	Three Months Ended March 31,	
	2007	2006
REVENUE:		
Contract research revenue	\$ 1,114,524	\$ 536,061
Development chemical revenue	209,206	675,906
Commercial chemical revenue	1,313,000	398,479
Royalty and license revenue	127,900	930,846
Technology development revenue	250,000	730,114
Total revenue	3,014,630	3,271,406
OPERATING EXPENSES:		
Cost of chemicals sold	281,549	236,337
Research and development	5,453,329	4,843,176
General and administrative	2,353,514	1,997,692
Royalty and license expense	94,998	186,525
Total operating expenses	8,183,390	7,263,730
Operating loss	(5,168,760)	(3,992,324)
INTEREST INCOME	584,959	474,390
INTEREST EXPENSE		(4,106)
NET LOSS	\$ (4,583,801)	\$ (3,522,040)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	\$ (0.15)	\$ (0.12)
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	31,523,070	30,030,376

The accompanying notes are an integral part of these statements.

Table of Contents

**UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	Three months ended March 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,583,801)	\$ (3,522,040))
Non-cash charges to statement of operations:		
Depreciation	466,139	451,943
Amortization of intangibles	423,768	423,767
Amortization of premium and discount on investments	(45,650)	(27,007)
Stock-based employee compensation	278,611	123,691
Stock-based non-employee compensation		38,076
Non-cash expense under a Development Agreement	37,072	1,171,358
Stock-based compensation to Board of Directors and Scientific Advisory Board	109,533	
(Increase) decrease in assets:		
Accounts receivable	342,412	(332,011)
Inventory	5,333	(3,295)
Other current assets	(33,409)	6,209
Other assets	(7,500)	(7,500)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(909,422)	(1,356,176)
Deferred license fees	(127,900)	372,101
Deferred revenue	750,000	(655,114)
 Net cash used in operating activities	 (3,294,814)	 (3,315,998)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(175,865)	(429,701)
Purchases of investments	(8,601,461)	(5,756,377)
Proceeds from sale of investments	4,345,000	3,601,000
 Net cash used in investing activities	 (4,432,326)	 (2,585,078)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of common stock options and warrants	1,153,785	3,304,105
 Net cash provided by financing activities	 1,153,785	 3,304,105
 DECREASE IN CASH AND CASH EQUIVALENTS	 (6,573,355)	 (2,596,971)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	31,097,533	30,654,249

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 24,524,178	\$ 28,057,278
--	---------------	---------------

The following non-cash activities occurred:

Unrealized gain on available-for-sale securities	\$ 55,754	\$ 15,692
Common stock issued to Board of Directors and Scientific Advisory Board that were earned in a previous period	260,000	588,200
Common stock issued to employees that were earned in a previous period	969,257	838,854
Common stock issued for royalties that were earned in a previous period	499,993	

The accompanying notes are an integral part of these statements.

Table of Contents

**UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY
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, the University of Southern California (USC), the University of Michigan (Michigan), Motorola, Inc. and PPG Industries, Inc., the Company has established a significant portfolio of proprietary OLED technologies and materials (Note 3).

The Company conducts a substantial portion of its OLED technology and material development activities at its technology development and transfer facility in Ewing, New Jersey. In December 2004, the Company acquired the entire 40,200 square foot building at which the facility is located. During 2005, the Company conducted a two-stage expansion of its laboratory and office space in the building. The Company also leases approximately 850 square feet of office space in Coeur d'Alene, Idaho.

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 financial position as of March 31, 2007, the results of operations for the three months ended March 31, 2007 and 2006, and cash flows for the three months ended March 31, 2007 and 2006. 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, 2006.

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.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* (SFAS 109). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 was adopted by the Company on January 1, 2007. The adoption of FIN 48 has not had an impact on the Company's results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value and expands disclosures on fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on its results of operations and financial position.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassification results in an increase in reported cost of chemicals sold and a reduction in research and development expenses by \$157,896 for the three months ended March 31, 2006.

Table of Contents**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.

Investments at March 31, 2007 and December 31, 2006 consist of the following:

Investment Classification	Cost	Unrealized		Market Value
		Gains	(Losses)	Aggregate Fair
March 31, 2007-				
Certificates of deposit	\$ 12,090,000	\$	\$ (25,338)	\$ 12,064,662
US Government bonds	10,295,479	797	(2,551)	10,293,725
	\$ 22,385,479	\$ 797	\$ (27,889)	\$ 22,358,387
December 31, 2006-				
Certificates of deposit	\$ 11,243,000	\$	\$ (79,070)	\$ 11,163,930
US Government bonds	6,840,368	668	(4,444)	6,836,592
	\$ 18,083,368	\$ 668	\$ (83,514)	\$ 18,000,522

4. RESEARCH AND LICENSE AGREEMENTS WITH PRINCETON UNIVERSITY, USC, AND THE UNIVERSITY OF MICHIGAN

The Company has funded OLED technology research at Princeton University and, on a subcontractor basis, at USC, under a Research Agreement executed with the Trustees of Princeton University in August 1997 (as amended, the 1997 Research Agreement). In April 2002, the 1997 Research Agreement was amended to provide for, among other things, an additional five-year term, through July 31, 2007. Payments to Princeton University under this agreement are charged to research and development expenses as they become due. Through March 31, 2007, the Company paid \$3,571,226 to Princeton University under the 1997 Research Agreement. Although the payments were charged to expense when they became due, the actual work performed by Princeton University and USC did not always equate to the fixed amounts actually paid for each period. In the third quarter of 2006, Princeton University refunded \$1,011,358 to the Company for cumulative amounts overpaid under the 1997 Research Agreement. The Company recorded the refund as an offset to research and development expenses.

On October 9, 1997, the Company, Princeton University and USC entered into an Amended License Agreement under which Princeton University 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 University and USC under the 1997 Research Agreement (as amended, the 1997 Amended License Agreement). Under this agreement, the Company is required to pay Princeton University 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 University 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 University 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 University 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 University

minimum annual royalties. The minimum royalty payment is \$100,000 per year. The Company accrued \$49,271 of royalty expense in connection with the agreement for the three months ended March 31, 2007.

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 provided the Company performs its obligations under the 1997 Research Agreement and, when that agreement ends, 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 January 2006, the Principal Investigator conducting research at Princeton University under the 1997 Research Agreement transferred to Michigan. As a result of this transfer, the Company has 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 has a term of three years. The 2006 Research Agreement supersedes the 1997 Research Agreement with respect to all work being performed at USC and Michigan. Under the 2006 Research Agreement, the Company is obligated to pay USC up to \$4,636,296 for work actually performed during the period from May 1, 2006 through April 30, 2009. Amounts paid to Princeton University under the 1997 Research Agreement offset any amounts the Company is obligated to pay USC under the 2006 Research Agreement. Payments under the 2006 Research Agreement are made to USC on a quarterly basis as actual expenses are incurred. Through

Table of Contents

the period ended March 31, 2007, the Company has incurred \$382,925 in research and development expense under the 2006 Research Agreement.

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 University, 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.

5. ACQUIRED TECHNOLOGY

Acquired technology consists of acquired license rights for patents and know-how obtained from PD-LD, Inc and Motorola, Inc. These intangible assets consist of the following:

	March 31, 2007	December 31, 2006
PD-LD, Inc.	\$ 1,481,250	\$ 1,481,250
Motorola, Inc.	15,469,468	15,469,468
	16,950,718	16,950,718
Less: Accumulated amortization	(11,054,998)	(10,631,230)
Acquired technology, net	\$ 5,895,720	\$ 6,319,488

On July 19, 2000, the Company, PD-LD, Inc. (PD-LD), its president Dr. Vladimir Ban and the Trustees of Princeton University entered into a Termination, Amendment and License Agreement whereby the Company acquired all PD-LD s rights to certain issued and pending OLED technology patents in exchange for 50,000 shares of the Company s common stock. Pursuant to this transaction, these patents were included in the patent rights exclusively licensed to the Company under the 1997 Amended License Agreement. The acquisition of these patents had a fair value of \$1,481,250.

On September 29, 2000, the Company entered into a License Agreement with Motorola, Inc. (Motorola). Pursuant to this agreement, the Company licensed from Motorola what are now 74 issued U.S. patents and corresponding foreign patents relating to OLED technologies. These patents expire between 2012 and 2018. The Company has the sole right to sublicense these patents to OLED product manufacturers. As consideration for this license, the Company issued to Motorola 200,000 shares of the Company s common stock (valued at \$4,412,500), 300,000 shares of the Company s Series B Convertible Preferred Stock (valued at \$6,618,750), and a warrant to purchase 150,000 shares of the Company s common stock at \$21.60 per share. This warrant became exercisable on September 29, 2001, and will remain exercisable until September 29, 2008. The warrant was recorded at a fair market value of \$2,206,234 based on the Black-Scholes option-pricing model, and was recorded as a component of the cost of the acquired technology. The Company also issued a warrant to an unaffiliated third party to acquire 150,000 shares of the Company s common stock as a finder s fee in connection with the Motorola transaction. This warrant was granted with an exercise price of \$21.60 per share, was exercisable immediately and will remain exercisable until September 29, 2007. This warrant was accounted for at its fair value based on the Black-Scholes option pricing model and \$2,206,234 was recorded as a component of the cost of the acquired technology. The Company used the following assumptions in the Black-Scholes option pricing model for the 300,000 warrants issued in connection with this transaction: (1) 6.3% risk-free interest rate, (2) expected life of 7 years, (3) 60% volatility, and (4) zero expected dividend yield. In addition, the Company incurred \$25,750 of direct cash transaction costs that have been included in the cost of the acquired technology. In total, the Company recorded an intangible asset of \$15,469,468 for the technology acquired from Motorola.

Amortization expense was \$423,768 for the quarters ended March 31, 2007 and 2006. For each of the years 2007 through 2009, amortization expense will be \$1,695,072 and for 2010 amortization expense will be \$1,234,272. The Company is required under the License Agreement to pay Motorola based on gross revenues earned by the Company from its sales of OLED products or components, or from its sublicensees for their sales of OLED products or components, whether or not these products or components are based on inventions claimed in the patent rights licensed from Motorola. Moreover, the Company was required to pay Motorola minimum royalties of \$150,000 for the two-year period ended on December 31, 2002, and \$500,000 for the two-year period ended on December 31, 2004. The Company was also required to pay Motorola minimum royalties of \$1,000,000 for the two-year period ended on December 31, 2006. 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.

Table of Contents

For the two-year period ended on December 31, 2006, the Company issued to Motorola 37,075 shares of the Company's common stock, valued at \$499,993, and paid Motorola \$500,007 in cash to satisfy the minimum royalty obligation of \$1,000,000. The Company accrued \$43,227 of royalty expense, in connection with the agreement, for the three months ended March 31, 2007.

6. EQUITY AND CASH COMPENSATION UNDER THE PPG 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, Inc. ("PPG"). Under the Development Agreement, a team of PPG 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 supplied the Company with its proprietary OLED materials that were intended for resale to customers for commercial purposes.

For the period from inception of the Development Agreement through December 2004, the Company issued shares of its common stock and warrants to acquire its common stock to PPG on an annual basis in consideration of the services provided under the agreement. The consideration to PPG for these services was determined by reference to an agreed-upon annual budget and was subject to adjustment based on costs actually incurred for work performed during the budget period. The specific number of shares of common stock and warrants issued to PPG was determined based on the average closing price of the Company's common stock during a specified period prior to the start of the budget period. In January 2003, the Company and PPG amended the Development Agreement, providing for additional consideration to PPG for additional services to be provided under that agreement, which services were paid for in cash. All materials provided by PPG under the Supply Agreement were also paid for in cash.

In December 2004 and again in March 2005, the Company and PPG amended both the Development Agreement and the Supply Agreement to alter the charges and method of payment for services and materials provided by PPG under both agreements during 2005. Under the amended Development Agreement, the Company compensated PPG on a cost-plus basis for the services provided during each calendar quarter. The Company was required to pay for some of these services in cash and for other of the services in common stock. Payment for up to 50% of the remaining services was able to be paid, at the Company's sole discretion, in cash or shares of common stock, with the balance payable in all cash. The actual number of shares of common stock issuable to PPG was determined based on the average closing price for the Company's common stock during a specified period prior to the end of that quarter. If, however, this average closing price was less than \$6.00, the Company was required to compensate PPG in all cash. The Company recorded these expenses to research and development as they were incurred. Under the amended Development Agreement, the Company was no longer required to issue warrants to PPG.

Under the amended Supply Agreement, the Company also compensated PPG on a cost-plus basis for services and materials provided during each calendar quarter of 2005. The Company was required to pay for all materials and for some of these services in cash. Payment for up to 50% of the remaining services was able to be paid, at the Company's sole discretion, in cash or shares of common stock, with the balance payable in all cash. Again, the specific number of shares of common stock issuable to PPG was determined based on the average closing price for the Company's common stock during a specified period prior to the end of that quarter. If, however, this average closing price was less than \$6.00, the Company was required to compensate PPG in all cash.

On July 29, 2005, the Company entered into an OLED Materials Supply and Service Agreement with PPG. This Agreement superseded and replaced in their entirety the amended Development and Supply Agreements effective as of January 1, 2006, and extended the term of the Company's existing relationship with PPG through December 31, 2008. Under the new agreement, PPG is continuing 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. The financial terms of the new agreement are substantially similar to those of the amended Development and Supply Agreements, and include a requirement that the Company pay PPG in a combination of cash and the Company's common stock.

The Company issued to PPG 23,396 and 77,402 shares of the Company's common stock, respectively, as consideration for services provided by PPG under the OLED Materials Supply and Service Agreement during the three months ended March 31, 2007 and 2006, respectively. Of these shares, 20,793 shares were issued on April 16, 2007, 2,603

shares were issued on October 19, 2006 and 77,402 shares were issued on April 19, 2006. For these shares, the Company recorded a charge of \$332,748 and \$1,075,965 to research and development expense for the three months ended March 31, 2007 and 2006, respectively. The Company also recorded \$321,844 and \$284,281 to research and development for the cash portion of the work performed by PPG during the three months ended March 31, 2007 and 2006, respectively.

Also, in accordance with the OLED Materials Supply and Service Agreement, the Company is required to reimburse PPG for its raw materials and conversion costs for all development chemicals produced on behalf of the Company. The Company recorded \$27,952 and \$67,503 to research and development expense for this activity during the three months ended March 31, 2007 and 2006, respectively.

Through the end of 2006, the Company was required under its agreements with PPG to grant options to purchase the Company's common stock to PPG employees performing development services for the Company, in a manner consistent with that for issuing options to its own employees. Subject to certain contingencies, these options were to vest one year following the date of grant and will expire 10 years from the date of grant. However, in connection with the transition to the Company of work being performed by the PPG development team, all outstanding options granted to PPG employees became vested as of December 31, 2006.

Table of Contents

On December 30, 2005, the Company granted to PPG employees performing development services under the Development Agreement options to purchase 31,500 of the Company's common stock at an exercise price of \$10.51. During the quarter ended March 31, 2006 the Company recorded \$95,393 in research and development costs related to these options. The Company determined the fair value of the options earned during the quarter ended March 31, 2006 using the Black-Scholes option-pricing model with the following assumptions: (1) risk free interest rate of 4.39%, (2) no expected dividend yield, (3) contractual life of 10 years and (4) expected volatility of 77.59%.

In lieu of stock options, and consistent with awards made to the Company's own employees, shares of stock were granted to certain PPG employees performing development services on the Company's behalf in 2006. On January 9, 2007, the Company issued 1,500 shares of its common stock as a bonus to the PPG research and development team members for the year ended December 31, 2006. Accordingly, the Company accrued \$21,915 as of December 31, 2006 in research and development costs relating to the issuance. The Company has no obligation to issue options or shares of stock to any PPG employees in 2007 or thereafter.

7. SHAREHOLDERS' EQUITY

	Preferred Stock,		Common Stock		Additional Paid-In Capital	Unrealized Losses on Available for Sale Securities	Accumulated Deficit	Total Equity
	Series A Shares	Amount	Shares	Amount				
BALANCE, JANUARY 1, 2007	200,000	\$ 2,000	31,385,408	\$ 313,854	\$ 199,505,981	\$ (82,846)	\$ (145,356,626)	\$ 54,382,363
Exercise of common stock options and warrants (A)			162,288	1,623	1,152,162			1,153,785
Stock based employee compensation (B)			70,842	708	1,247,160			1,247,868
Issuance of common stock to Board of Directors and Scientific Advisory Board (C)			22,796	228	369,305			369,533
Issuance of common stock in connection with Development and License Agreements (D)			39,678	397	536,668			537,065
Unrealized gain on available-for-sales securities						55,754		55,754
Net loss							(4,583,801)	(4,583,801)
								(4,528,047)

Comprehensive
loss

BALANCE,

MARCH 31, 2007 200,000 \$ 2,000 31,681,012 \$ 316,810 \$ 202,811,276 \$ (27,092) \$ (149,940,427) \$ 53,162,567

(A) During the period ended March 31, 2007, the Company issued 162,288 shares of common stock upon the exercise of common stock options and warrants, resulting in cash proceeds of \$1,153,785.

(B) This includes \$969,257 that was earned in a previous period and charged to expense when earned, but issued in 2007.

(C) This includes \$260,000 that was earned in a previous period and charged to expense when earned, but issued in 2007.

(D) This includes \$499,993 that was earned in a previous period and charged to expense when earned, but issued in 2007 (see Note 5).

8. STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS No. 123R utilizing the modified prospective transition method. SFAS No. 123R requires employee stock options to be valued at fair value on the date of grant and charged to expense over the applicable vesting period. Under the modified prospective method, compensation expense is recognized for all share based payments issued on or after January 1, 2006, and for all share payments issued to employees prior to January 1, 2006 that remain unvested. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. The adoption of SFAS No. 123R did not change the Company's accounting for share based payments issued to non-employees.

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, 2007, 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, 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, 2007, the Company granted 2,750 common stock options to employees. The stock options vested immediately with an exercise price equal to 100% of the market price of the Company's common stock on the date of grant. The fair value of the options granted during the three months ended March 31, 2007 was \$18,583. For the three months ended March 31, 2007, compensation expense related to all outstanding common stock options was \$165,287.

In addition, during the first quarter of 2007, the Company granted a total of 93,968 shares of restricted stock to employees and members of the Scientific Advisory Board. These shares of restricted stock had a value of \$1,604,261 on the date of grant and will vest in equal increments over three

Table of Contents

years from the date of grant. For the three months ended March 31, 2007, the Company recorded as a compensation charge related to all restricted stock awards in general and administrative expense of \$74,907 and in research and development expense of \$72,502.

On March 31, 2007, the Company also issued a total of 5,000 shares of fully vested common stock to members of its Board of Directors as partial payment for services performed in the first quarter. The fair value of the shares issued of \$75,450 was recorded as a compensation charge in general and administrative expense for the three months ended March 31, 2007.

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. For the three months ended March 31, 2007 and 2006, the effects of the exercise of the combined outstanding stock options and warrants of 6,653,313 and 7,243,593 respectively, 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. See Note 4 for further explanation.

Under the terms of the 1997 Amended License Agreement, the Company is required to make minimum royalty payments to Princeton University. See Note 4 for further explanation.

Patent Interference with Semiconductor Energy Laboratory Co., Ltd.

In June 2006, Patent Interference No. 105,461 was declared by the United States Patent and Trademark Office (the USPTO) between Semiconductor Energy Laboratory Co., Ltd. (SEL), and Princeton University and the University of Southern California (the Universities). The dispute concerned U.S. Patent No. 6,734,457, which had been issued to SEL. The SEL patent claimed aspects of the Company's phosphorescent OLED technology that the Company believes was disclosed and claimed in U.S. Application Serial No.10/913,211, which the Company exclusively licenses from the Universities. The Universities sought a ruling by the USPTO that they should be granted a patent to the claimed invention and that the SEL patent is invalid because the Universities were first-to-invent and their invention was made prior to that of SEL. Under the Company's agreement with the Universities, the Company is required to pay all legal costs and fees associated with the interference proceeding.

An oral hearing in the matter was held before the Board of Patent Appeals and Interferences (the BPAI) of the USPTO on April 25, 2007. The following day, the BPAI issued a decision in favor of the Universities. The BPAI decision confirmed that the Universities were first-to-invent the subject matter of the interference and that the Universities invention is prior art to SEL's patent. As a result, all claims of the SEL patent were canceled. SEL has two months to file an appeal from the BPAI decision.

Patent Opposition Initiated by Cambridge Display Technology, Ltd.

On December 8, 2006, Cambridge Display Technology, Ltd. (CDT) 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 and 6,888,306, and to pending U.S. patent application 10/966,417, filed on October 15, 2004. These patents and patent applications relate to the Company's flexible OLED technology. They are exclusively licensed to the Company by Princeton University, 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) has set a date of May 12, 2007 for the Company to file a response to the facts and arguments presented by CDT in its Notice of Opposition. The response has now been substantially completed and will soon be ready for a timely filing. Since the Company is still in a relatively early stage of this proceeding, Company management cannot make any prediction as to the probable outcome of this opposition. However, based on preliminary analysis of the evidence presented, 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.

Patent Opposition Initiated by Sumation Company, Ltd.

On March 8, 2007, Sumation Company Limited (Sumation), a joint venture between Sumitomo Chemical Company and CDT, filed a 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 and 7,001,536, and to pending U.S. patent application 11/233,605, filed on September 22, 2005. These patents and patent application relate to the Company s PHOLED technology. They are exclusively licensed to the Company by Princeton University, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

Table of Contents

The EPO will not set a due date for the Company to file a response to the opposition until approximately one month after the August 2, 2007 expiration date of the opposition period. Until such time, other parties may file additional oppositions to the EP 238 patent. Accordingly, the due date for responding to the opposition will not be until late this year or early next year. The Company is in the process of reviewing the Notice of Opposition and preparing its response. At this time, Company management cannot make any prediction as to the probable outcome of this opposition. However, based on preliminary analysis of the evidence presented, 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

One customer accounted for 47% and 4% of consolidated revenue for the three months ended March 31, 2007 and 2006, respectively. Accounts receivable from this customer were \$292,300 at March 31, 2007. Revenues from outside of North America represented 60% and 81% of the consolidated revenue for the three months ended March 31, 2007 and 2006, respectively.

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 statements often include words such as believe, expect, anticipate, intend, plan, estimate, will, may or similar 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, 2006, 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. We anticipate that in the future 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 family of OLED technologies (PHOLED, TOLED, FOLED, etc.) 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 \$149,940,427 as of March 31, 2007.

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

- § 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 of our customers' introduction and discontinuance of OLED products;
- § the timing and magnitude of expenditures we may incur in connection with our ongoing research and development activities; and

Table of Contents

§ the timing and financial consequences of our formation of new business relationships and alliances.

RESULTS OF OPERATIONS

We had a net loss of \$4,583,801 (or \$0.15 per diluted share) for the quarter ended March 31, 2007, compared to a net loss of \$3,522,040 (or \$0.12 per diluted share) for the same period in 2006. The increased loss was primarily due to increased research and development expenses and increased general and administrative expenses, as described below. Our revenues were \$3,014,630 for the quarter ended March 31, 2007, compared to \$3,271,406 for the same period in 2006.

Our commercial chemical revenues and royalty and license revenues for the quarter ended March 31, 2007 were \$1,313,000 and \$127,900, respectively, compared to \$398,479 and \$930,846, respectively, for the corresponding period in 2006. In the quarter ended March 31, 2006, we entered into a material supply agreement with AU Optronics for the purchase of materials from us for use in specified OLED products. Based on the terms of that agreement, we recorded both commercial chemical sales and license fee revenues from our sales of materials under the agreement. AU Optronics discontinued manufacturing the product for which it ordered our materials in the third quarter of 2006, and we have not sold any materials to AU Optronics under the agreement since that time.

In the first quarter of 2007, commercial chemical sales represent sales of our PHOLED materials to Samsung SDI. We cannot accurately predict how long these material sales will continue, as Samsung SDI is purchasing material from us on a purchase order basis. Continued sales of our PHOLED materials to Samsung SDI will depend on several factors, including pricing, availability, continued technical improvement and competitive product offerings.

We entered into a royalty-bearing patent license agreement with Samsung SDI in April 2005. We expect to receive royalty payments based on Samsung SDI's commencement of sales of licensed products during the first quarter of 2007. However, we have not received any royalty payments in connection with this agreement as of March 31, 2007, since royalty payments are not due under the agreement until a period of time after the quarter during which royalty-bearing products are sold. We cannot accurately predict the timing and frequency of such payments due to the early stage of the OLED industry.

Our royalty and license revenue for the quarters ended March 31, 2007 and 2006 also included license fees recorded as a result of the patent license agreement with Samsung SDI, as well as a cross-license agreement executed with DuPont Displays, Inc. in December 2002. In connection with each of these agreements, we received upfront payments that have been classified as deferred license fees and deferred revenue. The deferred license fees are being recognized as license fee revenue over the life of the agreement with Samsung SDI and over 10 years with DuPont Displays, Inc. We earned \$1,114,524 in contract research revenue from the U.S. government for the quarter ended March 31, 2007, compared to \$536,061 for the same period in 2006. The increase is mainly due to the timing of revenue recognition in connection with several programs that commenced in the second and third quarters of 2006.

We recognized \$250,000 in technology development revenue for the quarter ended March 31, 2007 in connection with one technology development and evaluation agreement entered into in 2006, compared to \$730,114 for the same period in 2006 in connection with four such agreements. The decrease is due to the completion of work under two of the technology development agreements in 2006. Also, we received a non-refundable payment for the continuation of one of the technology development agreements, which payment is creditable against future amounts payable under a commercial license agreement, if one is executed. Therefore, we have classified this payment as a deferred license fee rather than technology development revenue. The amount and timing of our receipt of fees for technology development and similar services is difficult to predict due to the early stage of the OLED industry.

We earned \$209,206 from sales of developmental chemicals in the quarter ended March 31, 2007, compared to \$675,906 for the same period in 2006. The decrease was mainly due to a decrease in high-volume purchases of OLED materials from us by potential OLED display manufacturers for pre-commercial scale up and test marketing purposes. We cannot accurately predict the timing and frequency of such purchases from customers due to the early stage of the OLED industry and the different pre-commercial launch strategies of the various manufacturers planning to enter the OLED display market.

We incurred research and development expenses of \$5,453,329 for the quarter ended March 31, 2007, compared to \$4,843,176 for the same period in 2006. The increase was due mainly to:

§ an increase of \$433,954 in personnel costs;

- § an increase of \$627,987 in operating costs associated with our recent expansion of our New Jersey facility; and
- § an increase of \$237,452 in research and development legal expenses associated with patent application, prosecution, maintenance and defense costs.

Table of Contents

The increase was offset by a decrease of \$689,241 in amounts payable to PPG Industries due to the hiring of certain PPG employees as employees of ours.

General and administrative expenses were \$2,353,514 for the quarter ended March 31, 2007, compared to \$1,997,692 for the same period in 2006. The increase was mainly due to:

§ an increase of \$170,979 in personnel cost; and

§ an increase of \$177,086 in operating costs associated with operation of our expanded facility.

Interest income increased to \$584,959 for the quarter ended March 31, 2007, compared to \$474,390 for the same period in 2006. This increase resulted mainly from higher rates of return on investments during the first quarter of 2007.

Liquidity and Capital Resources

As of March 31, 2007, we had cash and cash equivalents of \$24,524,178, short-term investments of \$22,262,598 and investments in certificates of deposit and other liquid instruments with an original maturity of more than one year of \$95,789, for a total of \$46,882,565. This compares to cash and cash equivalents of \$31,097,533, short-term investments of \$17,957,752 and investments in certificates of deposit and other liquid instruments with an original maturity of more than one year of \$42,770, for a total of \$49,098,055, as of December 31, 2006. The overall decrease in cash and cash equivalents and short-term and long-term investments of \$2,215,490 was primarily due to increased operating activities, offset to some extent by proceeds received from stock-purchase warrant and stock option exercises.

Cash used in operating activities was \$3,294,814 for the quarter ended March 31, 2007, compared to \$3,315,998 for the same period in 2006.

Working capital decreased to \$36,728,567 as of March 31, 2007, from working capital of \$37,422,740 as of December 31, 2006. The net decrease was due primarily to a decrease in cash which was used in operations.

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 through at least the end of 2008.

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. We have an effective shelf registration statement that would enable us to offer, from time to time, up to \$44,725,524 of our common stock, preferred stock and other securities, subject to market conditions and other factors.

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 and maintain 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.

Critical Accounting Policies

Refer to our Annual Report on Form 10-K for the year ended December 31, 2006 for a discussion of our critical accounting policies. There have been no changes in critical accounting policies to date in 2007.

Contractual Obligations

Refer to our Annual Report on Form 10-K for the year ended December 31, 2006 for a discussion of our contractual obligations. There have been no significant changes in contractual obligations to date in 2007.

Off-Balance Sheet Arrangements

Refer to our Annual Report on Form 10-K for the year ended December 31, 2006 for a discussion of off-balance sheet arrangements. As of March 31, 2007, we had no off-balance sheet arrangements.

Table of Contents

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. Our primary market risk exposure with regard to financial instruments is to changes in interest rates, which would impact interest income earned on investments.

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, 2007. 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 quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Patent Interference with Semiconductor Energy Laboratory Co., Ltd.

In June 2006, Patent Interference No. 105,461 was declared by the United States Patent and Trademark Office (the USPTO) between Semiconductor Energy Laboratory Co., Ltd. (SEL), and Princeton University and the University of Southern California (the Universities). The dispute concerned U.S. Patent No. 6,734,457, which had been issued to SEL. The SEL patent claimed aspects of our phosphorescent OLED technology that we believe was disclosed and claimed in U.S. Application Serial No.10/913,211, which we exclusively license from the Universities. The Universities sought a ruling by the USPTO that they should be granted a patent to the claimed invention and that the SEL patent is invalid because the Universities were first-to-invent and their invention was made prior to that of SEL. Under our agreement with the Universities, we are required to pay all legal costs and fees associated with the interference proceeding. An oral hearing in the matter was held before the Board of Patent Appeals and Interferences (the BPAI) of the USPTO on April 25, 2007. The following day, the BPAI issued a decision in favor of the Universities. The BPAI decision confirmed that the Universities were first-to-invent the subject matter of the interference and that the Universities' invention is prior art to SEL's patent. As a result, all claims of the SEL patent were canceled. SEL has two months to file an appeal from the BPAI decision.

Patent Opposition Initiated by Cambridge Display Technology, Ltd.

On December 8, 2006, Cambridge Display Technology, Ltd. (CDT) 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 and 6,888,306, and to pending U.S. patent application 10/966,417, filed on October 15, 2004. These patents and patent applications relate to our flexible OLED technology. They are exclusively licensed to us by Princeton University, 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) has set a date of May 12, 2007 for us to file a response to the facts and arguments presented by CDT in its Notice of Opposition. The response has now been substantially completed and will soon be ready for a timely filing. Since we are still in a relatively early stage of this proceeding, we cannot make any prediction as to the probable outcome of this opposition. However, based on our preliminary analysis of the evidence presented, 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.

Patent Opposition Initiated by Sumation Company, Ltd.

On March 8, 2007, Sumation Company Limited (Sumation), a joint venture between Sumitomo Chemical Company and CDT, filed a 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 and 7,001,536, and to pending U.S. patent application 11/233,605, filed on September 22, 2005. These patents and patent application relate to our PHOLED technology. They are exclusively licensed to us by Princeton University, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

Table of Contents

The EPO will not set a due date for us to file a response to the opposition until approximately one month after the August 2, 2007 expiration date of the opposition period. Until such time, other parties may file additional oppositions to the EP 238 patent. Accordingly, the due date for responding to the opposition will not be until late this year or early next year. We are in the process of reviewing the Notice of Opposition and preparing our response. At this time, we cannot make any prediction as to the probable outcome of this opposition. However, based on our preliminary analysis of the evidence presented, 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

A recent U.S. Supreme Court decision may raise the standards for all patent applicants and holders for patentability. On April 30, 2007, the U.S. Supreme Court, in *KSR International Co. vs. Teleflex, Inc.*, mandated a more expansive and flexible approach towards a determination as to whether a patent is obvious and invalid. This ruling may make it more difficult for patent holders to maintain patents. At the present time, we are unable to predict the impact, if any, that this recent ruling will have on our currently issued or future patents. As a result of the Supreme Court ruling, it may be more difficult for us to defend our currently issued patents or to obtain additional patents in the future. If we are unable to defend our currently issued patents, or to obtain new patents for any reason, our business could suffer. In addition to the other information contained in this Report, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006 in evaluating our operating results and financial condition.

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

During the quarter ended March 31, 2007, we issued an aggregate of 108,301 unregistered shares of our common stock. Of this amount, 37,075 shares were issued to Motorola, Inc. in partial satisfaction of our obligation to pay minimum royalties to Motorola under our license agreement with them. The remaining 71,226 shares were issued upon the exercise of outstanding warrants. The warrants had a weighted average exercise price of \$6.58 per share. The shares were issued in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following is a list of the exhibits filed as part of this report. Where so indicated by footnote, exhibits that were previously filed 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 Number	Description
31.1*	Certifications of Sherwin I. Seligsohn, 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 Sherwin I. Seligsohn, 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.

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.

Table of Contents

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 9, 2007

By: /s/ Sidney D. Rosenblatt

Sidney D. Rosenblatt
Executive Vice President and
Chief Financial Officer

17