

UNIVERSAL DISPLAY CORP \PA\
Form 10-Q
November 06, 2008

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 September 30, 2008

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 X 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 November 3, 2008, the registrant had outstanding 36,064,017 shares of common stock.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | September 30, 2008 | December 31, 2007 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 54,415,132 | \$ 33,870,696 |
| Short-term investments | 24,644,704 | 49,788,961 |
| Accounts receivable | 1,792,761 | 2,395,416 |
| Inventory | 2,209 | 41,165 |
| Other current assets | 649,900 | 673,931 |
| Total current assets | 81,504,706 | 86,770,169 |
| PROPERTY AND EQUIPMENT, net | 13,275,767 | 13,525,714 |
| ACQUIRED TECHNOLOGY, net | 3,353,112 | 4,624,416 |
| OTHER ASSETS | 72,272 | 79,772 |
| TOTAL ASSETS | \$ 98,205,857 | \$ 105,000,071 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 1,673,009 | \$ 861,428 |
| Accrued expenses | 4,733,161 | 4,578,147 |
| Deferred license fees | 6,148,268 | 7,178,268 |
| Deferred revenue | 1,787,634 | 172,688 |
| Total current liabilities | 14,342,072 | 12,790,531 |
| DEFERRED LICENSE FEES | 3,577,437 | 2,454,900 |
| DEFERRED REVENUE | 375,000 | 538,683 |
| Total liabilities | 18,294,509 | 15,784,114 |
| COMMITMENTS AND CONTINGENCIES (Note 8) | | |
| SHAREHOLDERS' EQUITY: | | |
| 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, 36,029,665 and 35,563,201 shares issued and | 360,297 | 355,632 |

outstanding at September 30, 2008 and December 31, 2007,
 respectively

| | | |
|---|----------------------|-----------------------|
| Additional paid-in capital | 255,591,116 | 250,240,994 |
| Unrealized loss on available for sale securities | (7,440) | (50,202) |
| Accumulated deficit | (176,034,625) | (161,332,467) |
| Total shareholders' equity | 79,911,348 | 89,215,957 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 98,205,857 | \$ 105,000,071 |

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended September 30, | |
|--|----------------------------------|-----------------------|
| | 2008 | 2007 |
| REVENUE: | | |
| Commercial revenue | \$ 1,324,924 | \$ 1,368,201 |
| Developmental revenue | 1,300,715 | 1,709,080 |
| Total revenue | 2,625,639 | 3,077,281 |
| OPERATING EXPENSES: | | |
| Cost of chemicals sold | 266,563 | 281,062 |
| Research and development | 5,750,361 | 4,568,299 |
| General and administrative | 2,342,962 | 2,209,537 |
| Royalty and license expense | 98,617 | 91,132 |
| Total operating expense | 8,458,503 | 7,150,030 |
| Operating loss | (5,832,864) | (4,072,749) |
| INTEREST INCOME | 545,561 | 1,114,769 |
| INTEREST EXPENSE | (15,680) | (2,585) |
| NET LOSS | \$ (5,302,983) | \$ (2,960,565) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | \$ (0.15) | \$ (0.08) |
| WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE | 35,989,473 | 34,985,918 |

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Nine Months Ended September 30, | |
|--|---------------------------------|------------------------|
| | 2008 | 2007 |
| REVENUE: | | |
| Commercial revenue | \$ 4,275,476 | \$ 3,202,027 |
| Developmental revenue | 3,212,580 | 5,205,054 |
| Total revenue | 7,488,056 | 8,407,081 |
| OPERATING EXPENSES: | | |
| Cost of chemicals sold | 709,001 | 727,650 |
| Research and development | 15,955,238 | 15,565,452 |
| General and administrative | 7,396,452 | 7,131,268 |
| Royalty and license expense | 297,086 | 222,725 |
| Total operating expense | 24,357,777 | 23,647,095 |
| Operating loss | (16,869,721) | (15,240,014) |
| INTEREST INCOME | 2,202,123 | 2,523,467 |
| INTEREST EXPENSE | (34,560) | (3,190) |
| NET LOSS | \$ (14,702,158) | \$ (12,719,737) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | \$ (0.41) | \$ (0.38) |
| WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE | 35,887,264 | 33,230,574 |

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended September 30, | |
|--|---------------------------------|-----------------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (14,702,158) | \$ (12,719,737) |
| Non-cash charges to statement of operations: | | |
| Depreciation | 1,421,274 | 1,347,549 |
| Amortization of intangibles | 1,271,304 | 1,271,304 |
| Amortization of premium and discount on investments, net | (942,761) | (189,306) |
| Stock-based employee compensation | 895,869 | 803,693 |
| Stock-based non-employee compensation | 4,119 | 9,497 |
| Non-cash expense under a Development Agreement | 882,540 | 745,453 |
| Stock-based compensation to Board of Directors and Scientific Advisory Board | 345,691 | 318,997 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 602,655 | (376,575) |
| Inventory | 38,956 | 28,389 |
| Other current assets | 24,031 | (139,669) |
| Other assets | 7,500 | 7,500 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 1,805,503 | (526,381) |
| Deferred license fees | 92,537 | (383,700) |
| Deferred revenue | 1,451,263 | 352,554 |
| Net cash used in operating activities | (6,801,677) | (9,450,432) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (1,171,327) | (661,591) |
| Purchase of investments | (62,028,220) | (27,344,981) |
| Proceeds from sale of investments | 88,158,000 | 22,543,000 |
| Net cash provided by (used in) investing activities | 24,958,453 | (5,463,572) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from the issuance of common stock | — | 38,000,023 |
| Proceeds from the exercise of common stock options and warrants | 2,387,660 | 6,422,284 |
| Net cash provided by financing activities | 2,387,660 | 44,422,307 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 20,544,436 | 29,508,303 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 33,870,696 | 31,097,533 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 54,415,132 | \$ 60,605,836 |

The following non-cash activities occurred:

| | | | | |
|--|----|---------|----|---------|
| Unrealized gain on available-for-sale securities | \$ | 42,762 | \$ | 66,164 |
| Common stock issued to Board of Directors and Scientific Advisory Board that was earned in a previous period | | 299,968 | | 260,000 |
| Common stock issued to employees that was earned in a previous period | | 867,510 | | 951,321 |
| Common stock issued for royalties that was earned in a previous period | | 66,403 | | 499,993 |
| Common stock issued under a Development Agreement that was earned in a previous period | | — | | 21,915 |
| Common stock issued to non-employee that was earned in a previous period | | 991 | | — |

The accompanying notes are an integral part of these statements.

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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”), the Company has established a significant portfolio of proprietary OLED technologies and materials (Note 4 and 5).

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 January 2008, the Company also formed a second wholly-owned subsidiary, Universal Display Corporation Hong Kong, Ltd. However, that subsidiary is not currently conducting business operations.

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 September 30, 2008, the results of operations for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine months ended September 30, 2008 and 2007. 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, 2007. 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.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“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. In February 2008, the FASB issued FASB Staff Position (“FSP”)

157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157's fair value measurement requirements for non-financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008. Non-recurring non-financial assets and liabilities for which the Company has not applied the provisions of SFAS 157 include long-lived assets measured at fair value for an impairment assessment under FASB Statement No. 144. Management does not expect the adoption of SFAS 157 for non-recurring non-financial assets and liabilities to have a significant impact on the Company's consolidated financial statements.

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. 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 within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

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The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2008:

| | Fair Value Measurements at September 30, 2008, Using | | | |
|------------------------|--|---|---|---|
| | Total carrying value as of September 30, 2008 | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Short-term Investments | \$ 24,644,704 | \$ 24,644,704 | \$ — | \$ — |
| Total | \$ 24,644,704 | \$ 24,644,704 | \$ — | \$ — |

Short-term investments are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy. The adoption of SFAS 157 did not have any impact on the Company's results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value at specified election dates. Under SFAS 159, any unrealized holding gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. If elected, the fair value option (1) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (2) is irrevocable (unless a new election date occurs); and (3) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have any impact on the Company's results of operations and financial position.

In June 2007, the FASB approved Emerging Issues Task Force Issue No. 07-03, Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities ("Issue No. 07-03"). Issue No. 07-03 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts should be recognized as an expense as goods are delivered or the related services are performed. Issue No. 07-03 is effective for fiscal years beginning after December 15, 2007. The adoption of Issue No. 07-03 did not have any impact on the Company's results of operations and financial position.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"), which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under FSP 142-3, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company has not determined the impact FSP 142-3 will have on its results of operations and 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.

Investments at September 30, 2008 and December 31, 2007 consist of the following:

| Investment Classification | Amortized Cost | Unrealized Gains | Unrealized (Losses) | Aggregate Fair Market Value |
|-----------------------------|-------------------|---------------------|------------------------|-----------------------------------|
| September 30, 2008 – | | | | |
| Corporate bonds | \$ 9,945,846 | \$ — | \$ (7,347) | \$ 9,938,499 |
| Certificates of deposit | 7,156,000 | 3,194 | (3,698) | 7,155,496 |
| U.S. Government bonds | 7,550,298 | 11,252 | (10,841) | 7,550,709 |
| | \$ 24,652,144 | \$ 14,446 | \$ (21,886) | \$ 24,644,704 |
| December 31, 2007 – | | | | |
| Corporate bonds | \$ 25,486,974 | \$ — | \$ (22,154) | \$ 25,464,820 |
| Certificates of deposit | 14,073,000 | — | (29,108) | 14,043,892 |
| U.S. Government bonds | 9,779,189 | 1,351 | (291) | 9,780,249 |
| Municipal bonds | 500,000 | — | — | 500,000 |
| | \$ 49,839,163 | \$ 1,351 | \$ (51,553) | \$ 49,788,961 |

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4. 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 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. Payments under the 2006 Research Agreement are made to USC on a quarterly basis as actual expenses are incurred. Through September 30, 2008, the Company had incurred \$1,699,087 in research and development expense under the 2006 Research Agreement.

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 has accrued \$162,035 of royalty expense in connection with the agreement for the nine months ended September 30, 2008.

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.

5. 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. 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.

On July 29, 2005, the Company entered into an OLED Materials Supply and Service Agreement with PPG (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 through December 31, 2008. Under the OLED Materials Agreement, PPG 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 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 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 in all cash.

The Company issued 63,354 and 50,477 shares of the Company’s common stock to PPG as consideration for services provided by PPG under the OLED Materials Agreement during the nine months ended September 30, 2008 and 2007, respectively. For these shares, the Company recorded \$882,540 and \$745,453 to research and development expense for the nine months ended September 30, 2008 and 2007, respectively. The Company also recorded \$771,565 and \$746,715 to research and development expense for the cash portion of the work performed by PPG during the nine months ended September 30, 2008 and 2007, respectively. Of the shares earned in the nine months ended September 30, 2008, 28,492 shares were issued in October 2008.

The Company is also required under the OLED Materials Agreement to reimburse PPG for its raw materials and conversion costs for all development chemicals produced on behalf of the Company. The Company recorded \$0 and \$162,132 to research and development expense for this activity during the nine months ended September 30, 2008 and 2007, respectively.

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6. SHAREHOLDERS' EQUITY

| | Preferred Stock, Series A | | Common Stock | | Additional Paid-In Capital | Unrealized Loss on Available-for- Sale Securities | Accumulated Deficit | Total Equity |
|--|------------------------------|----------|--------------|------------|----------------------------------|---|------------------------|-----------------|
| | Shares | Amount | Shares | Amount | | | | |
| BALANCE, JANUARY 1, 2008 | 200,000 | \$ 2,000 | 35,563,201 | \$ 355,632 | \$ 250,240,994 | \$(50,202) | \$(161,332,467) | \$ 89,215,957 |
| Exercise of common stock options and warrants (A) | - | - | 304,650 | 3,046 | 2,384,614 | - | - | 2,387,660 |
| Stock-based employee compensation (B) | - | - | 85,407 | 854 | 1,762,525 | - | - | 1,763,379 |
| Stock-based non-employee compensation (C) | - | - | 84 | 1 | 5,109 | - | - | 5,110 |
| Issuance of common stock to Board of Directors and Scientific Advisory Board (D) | - | - | 37,660 | 377 | 645,282 | - | - | 645,659 |
| Issuance of common stock in connection with Development and License Agreements (E) | - | - | 38,663 | 387 | 552,592 | - | - | 552,979 |
| Unrealized gain on available-for-sale securities | - | - | - | - | - | 42,762 | - | 42,762 |
| Net loss | - | - | - | - | - | - | (14,702,158) | (14,702,158) |
| Comprehensive loss | | | | | | | | (14,659,396) |
| BALANCE, SEPTEMBER 30, 2008 | 200,000 | \$ 2,000 | 36,029,665 | \$ 360,297 | \$ 255,591,116 | \$(7,440) | \$(176,034,625) | \$ 79,911,348 |

(A)

During the nine months ended September 30, 2008, the Company issued 304,650 shares of common stock upon the exercise of common stock options and warrants, resulting in cash proceeds of \$2,387,660.

- (B) Includes \$867,510 that was earned in a previous period and charged to expense when earned, but issued in 2008.
- (C) Includes \$991 that was earned in a previous period and charged to expense when earned, but issued in 2008.
- (D) Includes \$299,968 that was earned in a previous period and charged to expense when earned, but issued in 2008.
- (E) The Company was required to pay Motorola royalties of \$132,839 for the year ended December 31, 2007. As of September 2008, the Company issued to Motorola 3,801 shares of the Company's common stock, valued at \$66,403, and paid Motorola \$66,436 in cash to satisfy the royalty obligation.

7. STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS No. 123R utilizing the modified prospective transition method. SFAS No. 123R requires employee and non-employee director 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 prior to January 1, 2006 that remain unvested. The adoption of SFAS No. 123R did not change the Company's accounting for stock-based payments issued to non-employees.

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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 September 30, 2008, 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 nine months ended September 30, 2008, the Company granted to employees options to purchase 3,750 shares of common stock. These stock options vested immediately and had exercise prices equal to the closing market price of the Company’s common stock on the date of grant. The fair value of the options granted during the nine months ended September 30, 2008 was \$31,561. For the nine months ended September 30, 2008 and 2007, compensation expense related to the vesting of all employee stock options was \$143,577 and \$426,985, respectively.

In addition, during the nine months ended September 30, 2008, the Company granted a total of 76,057 shares of restricted stock to employees. These shares of restricted stock had a value of \$1,386,395 on the date of grant and will vest in equal increments annually over three years from the date of grant. For the nine months ended September 30, 2008, the Company recorded as compensation charges related to the vesting of all restricted stock awards to employees a general and administrative expense of \$482,196 and a research and development expense of \$252,924. The Company also granted 1,830 shares of common stock to employees, which were fully vested at the date of grant, and had a fair value of \$26,500 that was charged to research and development expense. In connection with these shares, 601 shares, with a fair value of \$9,328, were withheld in satisfaction of tax withholding obligations.

During the nine months ended September 30, 2008, the Company issued 15,828 shares of common stock to members of its Board of Directors as partial compensation for services performed. The fair value of the shares issued was \$281,543, which was recorded as general and administrative expense for the nine months ended September 30, 2008.

During the nine months ended September 30, 2008, the Company granted a total of 13,086 shares of restricted stock to certain members of its Scientific Advisory Board. These shares of restricted stock will vest in equal increments annually over three years from the date of grant. For the nine months ended September 30, 2008, the Company recorded a charge to research and development expenses of \$64,148 for the vesting of all restricted stock awards to these members of the Scientific Advisory Board.

During the nine months ended September 30, 2008, the Company also granted to non-employees options to purchase 250 shares of common stock and 30 shares of unrestricted stock. These stock options vested immediately and had exercise prices equal to the closing market price of the Company’s common stock on the date of grant. The fair value of the options granted and the shares issued to non-employees during the nine months ended September 30, 2008 was \$4,119, which was charged to research and development expense.

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 nine months ended September 30, 2008 and 2007, the

effects of the exercise of the combined outstanding stock options and warrants of 4,672,275 and 5,681,359, respectively, were excluded from the calculation of diluted EPS as the impact would have been antidilutive.

8. 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 4 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 4 for further explanation.

The Company is required under a license agreement with Motorola to pay royalties 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

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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. For the nine months ended September 30, 2008, the Company recorded a royalty expense of \$127,551.

Notice of 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") 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 was timely filed. The opponents then filed their reply to the Company's response on December 7, 2007. The Company has decided that there is no need to file another response before the oral hearing date is set. The Company is currently waiting for the EPO to notify it of the date of the oral hearing.

At this stage of the proceeding, Company management cannot make any prediction as to the probable outcome of this 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.

Notices of 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 and 7,291,406, and to pending U.S. patent application 11/879,379, filed on July 16, 2007. 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 currently 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.

9. CONCENTRATION OF RISK

Contract research revenue, which is included in developmental revenue in the accompanying statement of operations, of \$1,841,368 and \$3,649,076 for the nine months ended September 30, 2008 and 2007, respectively, has been derived from contracts with United States government agencies. One non-government customer accounted for 48% and 37% of consolidated revenue for the nine months ended September 30, 2008 and 2007, respectively. Accounts receivable from this customer were \$825,000 at September 30, 2008. Revenues from outside of North America represented 72% and 54% of consolidated revenue for the nine months ended September 30, 2008 and 2007, respectively.

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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, 2007, 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 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 \$176,034,625 as of September 30, 2008.

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 September 30, 2008 Compared to Three Months Ended September 30, 2007

We had a net loss of \$5,302,983 (or \$0.15 per diluted share) for the quarter ended September 30, 2008, compared to a net loss of \$2,960,565 (or \$0.08 per diluted share) for the same period in 2007. The increase in net loss was primarily due to:

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- an increase in operating expenses of \$1,308,473;
- a decrease in interest income of \$569,208; and
- a decrease in revenues of \$451,642.

Our revenues were \$2,625,639 for the quarter ended September 30, 2008, compared to \$3,077,281 for the same period in 2007. Commercial revenue decreased to \$1,324,924 from \$1,368,201 for the same period in 2007. Commercial revenue relates to the commercialization of our OLED technologies into our customers' products and includes commercial chemical revenue, license fees and royalty income. Developmental revenue decreased to \$1,300,715 from \$1,709,080 for the same period in 2007. Developmental revenue relates to developmental efforts for which we are paid and includes contract research revenue, technology development revenue and development chemical revenue. We believe these revenue categories, which now combine accounts previously reported separately, better reflect our business strategies and core business efforts.

Our commercial chemical revenue and our royalty and license revenues for the quarter ended September 30, 2008 were \$1,025,000 and \$299,924, respectively, compared to \$1,185,050 and \$183,151, respectively, for the corresponding period in 2007.

The majority of our commercial chemical revenue for the quarter ended September 30, 2008 was from sales of our proprietary OLED materials to Samsung SDI Co., Ltd. ("Samsung SDI"). We also sold small quantities of these materials to two other commercial chemical customers during the quarter. During the same period in 2007, we recorded all of our commercial chemical revenue, as well as the majority of our license and royalty revenues, from Samsung SDI. We cannot accurately predict how long our material sales to Samsung SDI or other customers will continue, as they frequently update and alter their product offerings. Continued sales of our OLED materials to these customers will depend on several factors, including, pricing, availability, continued technical improvement and competitive product offerings.

We recorded royalty revenue of \$148,261 for the quarter ended September 30, 2008, compared to \$16,051 for the same period in 2007. This revenue represents royalties received under our patent license agreement with Samsung SDI, which we entered into in April 2005. Under the agreement with Samsung SDI, we receive royalty reports at a specified period of time after the end of the quarter during which royalty-bearing products are sold by Samsung SDI. Consequently, the royalty revenue from Samsung SDI for the three months ended September 30, 2008 and 2007 represents royalties for products sold by Samsung SDI during the second quarter of 2008 and 2007, respectively.

License revenue for the quarters ended September 30, 2008 and 2007 included license fees of \$151,663 and \$167,100, respectively. These revenues were received under our patent license agreement with Samsung SDI, as well as a cross-license agreement we executed with DuPont Displays, Inc. ("DuPont") in December 2002. License revenue for the quarter ended September 30, 2008 also included revenues received under a patent license agreement we entered into with Konica Minolta Holdings, Inc. ("Konica Minolta") in August 2008, and a joint development agreement we previously entered into with a subsidiary of Konica Minolta. In connection with 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 revenue over the term of the agreement with Samsung SDI and, based on current assumptions, over 10 years with DuPont and Konica Minolta.

We earned \$610,316 in contract research revenue from agencies of the U.S. government for the quarter ended September 30, 2008, compared to \$1,229,306 in corresponding revenue for the same period in 2007. The decrease was due principally to the timing of revenue recognition in connection with several new and completed government

programs in the third quarter of 2008. However, the overall contract value remained relatively consistent in both quarters.

We earned \$628,033 in development chemical revenue for the quarter ended September 30, 2008, compared to \$229,774 in corresponding revenue for the same period in 2007. We had the same number of developmental chemical customers in both periods; however, the dollar values of shipments to two of these customers was significantly higher in the third quarter of 2008. We cannot accurately predict the timing and frequency of development chemical purchases by our customers due to participants in the OLED industry having differing OLED technology development and product launch strategies.

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We recognized \$62,366 in technology development revenue for the quarter ended September 30, 2008, compared to \$250,000 in technology development revenue for the same period in 2007. Technology development revenue for the quarter ended September 30, 2008 included revenues received under a new joint development agreement we entered into in August 2008. Payments received under this new agreement are being classified as deferred revenue and will be recognized over a period of three years. The amount and timing of our receipt of fees for technology development and similar services is difficult to predict due to participants in the OLED industry having different technology development strategies.

During the third quarter of 2008, we received \$2,200,000 in fees from customers for licenses, technical assistance and joint development work. We have recorded these fees as deferred revenue and began recognizing a portion of them in the third quarter.

Total operating expenses were \$8,458,503 for the quarter ending September 30, 2008, compared to \$7,150,030 for the same period in 2007. Total operating expenses for the third quarter of 2008 are in line with the prior quarters of 2008. Total operating expenses averaged approximately \$8,100,000 per quarter for the first three quarters of 2008. Total operating expenses for the year 2007 averaged approximately \$7,900,000 per quarter. Operating expenses were consistent with our expectations on a quarter-to-quarter basis.

We incurred research and development expenses of \$5,750,361 for the quarter ended September 30, 2008, compared to \$4,568,299 for the same period in 2007. The increase was mainly due to:

- an increase in the amounts paid to PPG Industries under our OLED Materials and Supply and Service Agreement of \$279,256;
- an increase in patent costs of \$261,577;
- an increase in personnel costs of \$220,765;
- An increase in subcontract costs of \$204,185;
- an increase in sponsored research costs of \$196,260; and
- an increase in lab supplies of \$181,442.

Research and development expenses for the third quarter 2008 were higher than for the third quarter 2007, mainly due to differences in the timing of these expenses. As noted below, research and development expenses remained consistent for the nine-month periods ended September 30, 2008 and 2007.

General and administrative expenses were \$2,342,962 for the quarter ended September 30, 2008, compared to \$2,209,537 for the same period in 2007. These expenses remained relatively consistent over the corresponding periods.

Interest income decreased to \$545,561 for the quarter ended September 30, 2008, compared to \$1,114,769 for the same period in 2007. The decrease was mainly attributable to decreased rates of return on investments during the quarter, compared to rates for the same period in 2007. Due to current market conditions, we anticipate that these lower rates of return will continue for the foreseeable future.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

We had a net loss of \$14,702,158 (or \$0.41 per diluted share) for the nine months ended September 30, 2008, compared to a net loss of \$12,719,737 (or \$0.38 per diluted share) for the same period in 2007. The increased loss was primarily due to:

- an increase in operating expenses of \$710,682;
- a decrease in interest income of \$321,344; and
- a decrease in revenues of \$919,025.

Our revenues were \$7,488,056 for the nine months ended September 30, 2008, compared to \$8,407,081 for the same period in 2007. Commercial revenue increased to \$4,275,476 from \$3,202,027 for the same period in 2007. Developmental revenue decreased to \$3,212,580 from \$5,205,054 for the same period in 2007.

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Our commercial chemical revenue and our royalty and license revenues for the nine months ended September 30, 2008 were \$2,948,890 and \$1,326,586, respectively, compared to \$2,727,681 and \$474,346, respectively, for the corresponding period in 2007. Almost all of our commercial chemical revenue for the nine months ended September 30, 2008 and 2007 was from sales of our proprietary OLED materials to Samsung SDI. We cannot accurately predict how long our material sales to Samsung SDI or other customers will continue, as they frequently update and alter their product offerings. Continued sales of our OLED materials to these customers will depend on several factors, including, pricing, availability, continued technical improvement and competitive product offerings.

We recorded royalty revenue of \$644,413 for the nine months ended September 30, 2008, compared to \$47,446 for the same period in 2007. This revenue represents royalties received under our patent license agreement with Samsung SDI. Under the agreement with Samsung SDI, we receive royalty reports at a specified period of time after the end of the quarter during which royalty-bearing products are sold by Samsung SDI. Consequently, the royalty revenue from Samsung SDI for the nine months ended September 30, 2008 represents only royalties earned during the last of quarter of 2007 and the first two quarters of 2008. We also recorded royalty revenue of \$52,141 for the nine months ended September 30, 2008 from sales of OVPD equipment by our licensee, Aixtron AG. We received no corresponding royalty revenue for the same period in 2007.

License revenue for the nine months ended September 30, 2008 and 2007 was \$682,173 and \$426,900, respectively. These revenues were derived primarily from our patent license agreement with Samsung SDI and our cross-license agreement with DuPont. License revenue for the nine months ended September 30, 2008 also included revenues received under our patent license agreement with Konica Minolta and a prior joint development agreement with a subsidiary of Konica Minolta. We also recorded license revenue from two additional commercial customers under their commercial material supply agreements during the first nine months of 2008.

We earned \$1,841,368 in contract research revenue from agencies of the U.S. government for the nine months ended September 30, 2008, compared to \$3,649,076 in corresponding revenue for the same period in 2007. The decrease was due principally to the timing of revenue recognition in connection with several new and completed government programs, including a \$500,000 milestone under one of our contracts achieved in the second quarter of 2007. However, the overall contract value remained relatively consistent in both periods.

We earned \$1,186,158 in development chemical revenue for the nine months ended September 30, 2008, compared to \$805,978 in corresponding revenue for the same period in 2007. We cannot accurately predict the timing and frequency of development chemical purchases by our customers due to participants in the OLED industry having differing OLED technology development and product launch strategies.

We recognized \$185,054 in technology development revenue for the nine months ended September 30, 2008, compared to \$750,000 in technology development revenue for the same period in 2007. The decrease was due in part to our completion at the end of 2007 of certain work under a technology development agreement with one of our customers. Technology development revenue for the nine-month period ended September 30, 2008 included revenues received under a new joint development agreement we entered into in August 2008. The amount and timing of our receipt of fees for technology development and similar services is difficult to predict due to participants in the OLED industry having different technology development strategies.

During the third quarter of 2008, we received \$2,200,000 in fees from customers for licenses, technical assistance and joint development work. We have recorded these fees as deferred revenue and began recognizing a portion of them in the third quarter.

We incurred research and development expenses of \$15,955,238 for the nine months ended September 30, 2008, compared to \$15,565,452 for the same period in 2007. These expenses remained consistent over the corresponding

periods.

General and administrative expenses were \$7,396,452 for the nine months ended September 30, 2008, compared to \$7,131,268 for the same period in 2007. These expenses remained consistent over the corresponding periods.

Interest income decreased to \$2,202,123 for the nine months ended September 30, 2008, compared to \$2,523,467 for the same period in 2007. The decrease was mainly attributable to decreased rates of return on investments during the nine-month period, compared to rates for the same period in 2007. Due to current market conditions, we anticipate that these lower rates of return will continue for the foreseeable future.

Liquidity and Capital Resources

As of September 30, 2008, we had cash and cash equivalents of \$54,415,132 and short-term investments of \$24,644,704, for a total of \$79,059,836. This compares to cash and cash equivalents of \$33,870,696 and short-term investments of \$49,788,961, for a total of \$83,659,657, as of December 31, 2007.

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Cash used in operating activities was \$522,950 and \$6,801,677 for the three and nine months ended September 30, 2008, respectively, compared to \$2,575,906 and \$9,450,432 for the same periods in 2007. The decrease in cash usage is due in part to an increase in accounts payable and accrued expenses, which included increased amounts due to PPG Industries and accruals for year compensation payments. The decrease in cash usage is also attributable to an increase in deferred revenue, which included \$2,200,000 in fees received from customers for licenses, technical assistance and joint development work.

Cash provided by investing activities was \$24,958,453 for the nine months ended September 30, 2008. For the same period in 2007, cash used in investing activities was \$5,463,572. The change was due to timing differences in the purchases and maturities of investments during the two periods. The increased volume of investments during the period ended September 30, 2008 was due to an increase in cash invested in short-term investments, which cash was derived from our May 2007 common stock offering.

Cash provided by financing activities was \$2,387,660 for the nine months ended September 30, 2008, compared to \$44,422,307 for the same period in 2007. The decrease was due to a decrease in exercises of stock options and stock purchase warrants in 2008, and the completion of our common stock offering in May 2007.

Working capital was \$67,162,634 as of September 30, 2008, compared to working capital of \$73,979,638 as of December 31, 2007. Working capital decreased primarily due to cash used in operating activities.

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 2009.

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. Particularly in light of current market conditions, 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, 2007 for a discussion of our critical accounting policies. There have been no changes in critical accounting policies to date in 2008.

Contractual Obligations

Refer to our Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of our contractual obligations. There have been no significant changes in contractual obligations to date in 2008.

Off-Balance Sheet Arrangements

Refer to our Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of off-balance sheet arrangements. As of September 30, 2008, 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 disclosed in Note 3 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.

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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 September 30, 2008. 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 September 30, 2008 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

Notice of 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”) 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 was timely filed. The opponents then filed their reply to our response on December 7, 2007. We have decided that there is no need to file another response before the oral hearing date is set. We are currently waiting for the EPO to notify us of the date of the oral hearing.

At this stage of the proceeding, we cannot make any prediction as to the probable outcome of this 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.

Notices of 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 and 7,291,406, and to pending U.S. patent application 11/879,379, filed on July 16, 2007. 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 currently 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.

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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.

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, 2007.

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

During the quarter ended September 30, 2008, we issued an aggregate of 15,415 unregistered shares of our common stock upon the exercise of outstanding warrants. The warrants had an exercise price of \$13.51 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

Amended and Restated Change in Control Agreements

On November 4, 2008, the Compensation Committee of our Board of Directors approved amendments to existing Change in Control Agreements between the Company and the following executive officers: Sherwin I. Seligsohn, Steven V. Abramson, Sidney D. Rosenblatt, Julia J. Brown and Janice K. Mahon (the “CIC Agreements”). The amendments are intended to bring the CIC Agreements into compliance with the strict timing and documentary requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder.

The amendments are designed to ensure that amounts payable under the CIC Agreements will qualify as severance payable in connection with an involuntary termination of employment. If no changes were made to address Section 409A, these amounts would be subject to immediate taxation, including a 20% penalty tax, as well as a six-month deferral requirement. Except as noted below, we do not believe that the amendments will have a material impact on the aggregate payments and other benefits to which our executive officers would be entitled under the CIC Agreements in the event of a termination of employment for a change in control.

The CIC Agreement with Ms. Mahon was also amended to increase the payments to which she would be entitled in the event of a termination of her employment for a change in control. As previously reported, Ms. Mahon became an executive officer of the Company effective January 1, 2008. Based on these amendments, the financial terms of the

CIC Agreement with Ms. Mahon are now the same as those of our other executive officers.

We implemented the amendments by executing Amended and Restated Change in Control Agreements with each of our executive officers on November 4, 2008. The Amended and Restated Change in Control Agreements have been filed as Exhibits to this Quarterly Report on Form 10-Q. The foregoing statements in this Quarterly Report on Form 10-Q are qualified in their entirety by reference to those Exhibits.

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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 Number | Description |
|-------------------|---|
| 10.1*+ | Amendment No. 1 to the OLED Patent License Agreement between the registrant and Samsung SDI Co., Ltd., dated as of July 30, 2008 |
| 10.2*+ | OLED Technology License and Technical Assistance Agreement between the registrant and Kyocera Corporation, dated as of July 28, 2008 |
| 10.3*+ | Commercial OLED Material Supply Agreement between the registrant and Kyocera Corporation, dated as of July 28, 2008 |
| 10.4*+ | OLED Technology License Agreement between the registrant and Konica Minolta Holdings, Inc., dated as of August 11, 2008 |
| 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.
- + Confidential treatment has been requested as to certain portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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.

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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: November 6, 2008

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