UNIVERSAL DISPLAY CORP \PA\
Form 10-Q
November 04, 2010

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ___________

Commission File Number 1-12031

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

Pennsylvania	23-2372688
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
375 Phillips Boulevard Ewing, New Jersey	08618
(Address of principal executive offices)	(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ___	Accelerated filer X
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 X

As of November 1, 2010, the registrant had outstanding 38,522,792 shares of common stock.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)	
Consolidated Balance Sheets – September 30, 2010 and December 31, 2009	3
Consolidated Statements of Operations – Three months ended September 30, 2010 and 2009	4
Consolidated Statements of Operations – Nine months ended September 30, 2010 and 2009	5
Consolidated Statements of Cash Flows – Nine months ended September 30, 2010 and 2009	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23

PART II – OTHER INFORMATION

Item 1. Legal Proceedings	24
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults Upon Senior Securities	26
Item 4. Removed and Reserved	26
Item 5. Other Information	26
Item 6. Exhibits	26

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,202,740	$ 22,701,126
Short-term investments	56,804,462	41,172,955
Accounts receivable	4,696,340	3,344,255
Other current assets	624,180	411,240
Total current assets	70,327,722	67,629,576
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $16,991,110 and $15,788,490	9,938,093	11,048,763
ACQUIRED TECHNOLOGY, net of accumulated amortization of $16,950,718 and $15,716,446	—	1,234,272
OTHER ASSETS	266,111	227,276
TOTAL ASSETS	$ 80,531,926	$ 80,139,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,597,514	$ 1,275,695
Accrued expenses	5,738,504	5,238,870
Deferred license fees	4,028,486	6,047,467
Deferred revenue	343,959	1,403,927
Stock warrant liability	8,951,791	—
Total current liabilities	20,660,254	13,965,959
DEFERRED LICENSE FEES	2,940,479	2,826,237
STOCK WARRANT LIABILITY	—	3,720,165
RETIREMENT PLAN BENEFIT LIABILITY	6,002,998	—
Total liabilities	29,603,731	20,512,361

COMMITMENTS AND CONTINGENCIES (Note 10)				
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, 100,000,000 and 50,000,000 shares authorized, 38,315,153 and 36,818,440 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		383,152		368,184
Additional paid-in capital		267,554,133		256,340,530
Accumulated deficit		(211,709,701)		(197,108,705)
Accumulated other comprehensive (loss) income		(5,301,389)		25,517
Total shareholders' equity		50,928,195		59,627,526
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	80,531,926	$	80,139,887

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

Table of Contents

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,	
	2010	2009
REVENUE:		
Commercial revenue	$ 2,836,587	$ 1,621,416
Developmental revenue	4,219,274	3,523,977
Total revenue	7,055,861	5,145,393
OPERATING EXPENSES:		
Cost of chemicals sold	1,258,435	277,218
Research and development	4,831,299	4,938,705
Selling, general and administrative	3,452,815	2,656,005
Patent costs	1,177,383	955,119
Royalty and license expense	218,474	111,122
Total operating expenses	10,938,406	8,938,169
Operating loss	(3,882,545)	(3,792,776)
INTEREST INCOME	64,373	121,927
INTEREST EXPENSE	(5,957)	(386)
LOSS ON STOCK WARRANT LIABILITY	(3,362,441)	(1,001,612)
NET LOSS	$ (7,186,570)	$ (4,672,847)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.19)	$ (0.13)
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	37,741,107	36,481,603

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

Table of Contents

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Nine Months Ended September 30, 2010	2009
REVENUE:		
Commercial revenue	$ 6,618,626	$ 4,229,609
Developmental revenue	13,130,714	6,705,996
Total revenue	19,749,340	10,935,605
OPERATING EXPENSES:		
Cost of chemicals sold	2,736,637	766,396
Research and development	13,999,438	15,482,462
Selling, general and administrative	9,719,643	7,994,021
Patent costs	2,802,549	2,510,379
Royalty and license expense	507,094	279,484
Total operating expenses	29,765,361	27,032,742
Operating loss	(10,016,021)	(16,097,137)
INTEREST INCOME	201,153	563,920
INTEREST EXPENSE	(18,664)	(3,327)
LOSS ON STOCK WARRANT LIABILITY	(5,231,626)	(1,121,080)
LOSS BEFORE INCOME TAX BENEFIT	(15,065,158)	(16,657,624)
INCOME TAX BENEFIT	464,162	—
NET LOSS	$ (14,600,996)	$ (16,657,624)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.39)	$ (0.46)
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	37,380,190	36,388,939

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

5

Table of Contents

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (14,600,996)	$ (16,657,624)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred license fees and deferred revenue	(3,653,330)	(3,342,522)
Depreciation	1,329,279	1,552,826
Amortization of intangibles	1,234,272	1,271,304
Amortization of premium and discount on investments, net	(121,891)	(356,571)
Stock-based employee compensation	1,902,701	1,420,170
Stock-based non-employee compensation	43,308	7,011
Non-cash expense under a materials agreement	896,184	851,587
Stock-based compensation to Board of Directors and Scientific Advisory Board	660,983	321,300
Loss on stock warrant liability	5,231,626	1,121,080
(Increase) decrease in assets:		
Accounts receivable	(1,352,085)	564,099
Other current assets	(212,940)	(80,062)
Other assets	(38,835)	(167,986)
Increase in liabilities:		
Accounts payable and accrued expenses	2,335,190	1,396,958
Deferred license fees	634,545	—
Deferred revenue	54,078	266,667
Retirement plan benefit liability	684,164	—
Net cash used in operating activities	(4,973,747)	(11,831,763)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(218,609)	(202,739)
Purchase of short-term investments	(71,972,672)	(57,674,990)
Proceeds from sale of short-term investments	56,454,984	51,700,000

Net cash used in investing activities	(15,736,297)	(6,177,729)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock	191,618	52,887
Proceeds from the exercise of common stock options and warrants	7,167,562	1,102,335
Payment of withholding taxes related to stock-based employee compensation	(1,147,522)	(858,526)
Net cash provided by financing activities	6,211,658	296,696
DECREASE IN CASH AND CASH EQUIVALENTS	(14,498,386)	(17,712,796)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	22,701,126	28,321,581
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,202,740	$ 10,608,785
The following non-cash activities occurred:		
Unrealized (loss) gain on available-for-sale securities	$ (8,072)	$ 48,922
Common stock issued to Board of Directors and Scientific Advisory Board that was earned in a previous period	314,181	309,802
Common stock issued to employees that was accrued for in a previous period, net of shares withheld for taxes	929,552	827,275
Common stock issued for royalties that was earned in a previous period	81,273	81,954

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

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BACKGROUND

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

2. BASIS OF PRESENTATION

Interim Financial Information

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company’s financial position as of September 30, 2010, results of operations for the three and nine months ended September 30, 2010 and 2009, and cash flows for the nine months ended September 30, 2010 and 2009. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company’s latest year-end financial statements, which are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, as amended. The results of Company’s operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for the full year.

Management’s Use of Estimates

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

Fair Value of Financial Instruments

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

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (“FASB”) issued guidance which will affect the revenue recognition accounting policies for transactions that involve multiple deliverables. The new guidance requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though those deliverables are not sold separately either by the company itself or other vendors. This new guidance eliminates the requirement that all undelivered elements have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. In the absence of vendor-specific objective evidence and third-party evidence for one or more elements in a multiple-element arrangement, companies will estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element whether delivered or undelivered, based on their relative selling prices, regardless of whether those estimated selling prices are evidenced by vendor-specific objective evidence, third-party evidence of fair value or are based on the company’s judgment. The new guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. However, early adoption is permitted. If a company elects early adoption and the period of adoption is not the beginning of its fiscal year, the requirements must be applied retrospectively to the beginning of the fiscal year. Retrospective application to prior years is permitted, but not required. In the initial year of application, companies are required to make qualitative and quantitative disclosures about the impact of the changes. In many circumstances, the new guidance under these consensuses will require significant changes to a company's revenue recognition policies and procedures, including system modifications. The Company does not expect this new guidance to have a material impact on its results of operations or financial position.

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

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

3. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

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

Short-term investments at September 30, 2010 and December 31, 2009 consisted of the following:

Investment Classification	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Market Value
September 30, 2010 –				
Certificates of deposit	$ 6,677,796	$ 400	$ (5,936)	$ 6,672,260
Corporate bonds	29,932,741	18,672	(1,483)	29,949,930
U.S. Government bonds	20,176,480	8,068	(2,276)	20,182,272
	$ 56,787,017	$ 27,140	$ (9,695)	$ 56,804,462
December 31, 2009 –				
Certificates of deposit	$ 8,688,457	$ 1,633	$ (7,245)	$ 8,682,845
U.S. Government bonds	32,458,981	31,140	(11)	32,490,110
	$ 41,147,438	$ 32,773	$ (7,256)	$ 41,172,955

All short-term investments held at September 30, 2010 will mature within one year.

4. FAIR VALUE MEASUREMENTS

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2010:

		Fair Value Measurements, Using		
	Total carrying value as of September 30, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 2,251,919	$ 2,251,919	$ —	$ —
Investments	56,804,462	56,804,462	—	—
Stock warrant liability	8,951,791	—	—	8,951,791

Table of Contents

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

		Fair Value Measurements, Using		
	Total carrying value as of December 31, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 14,200,795	$ 14,200,795	$ —	$ —
Investments	41,172,955	41,172,955	—	—
Stock warrant liability	3,720,165	—	—	3,720,165

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

The following table is a reconciliation of the changes in fair value of the Company's stock warrant liability for the three months ended September 30, which has been classified in Level 3 in the fair value hierarchy:

	2010	2009
Fair value of stock warrant liability, beginning of period	$ 5,589,350	$ 2,808,578
Unrealized loss for period	3,362,441	1,001,612
Fair value of stock warrant liability, end of period	$ 8,951,791	$ 3,810,190

The following table is a reconciliation of the changes in fair value of the Company's stock warrant liability for the nine months ended September 30, which has been classified in Level 3 in the fair value hierarchy:

	2010	2009
Fair value of stock warrant liability, beginning of period	$ 3,720,165	$ —
Cumulative effect of reclassification of stock warrant liability under Accounting Standards Codification ("ASC") 815	—	2,689,110
Unrealized loss for period	5,231,626	1,121,080
Fair value of stock warrant liability, end of period	$ 8,951,791	$ 3,810,190

The fair value of the stock warrant liability was determined using the Black-Scholes option pricing model with the following inputs at September 30:

	2010		2009	
Contractual life (years)	0.9		0.38-1.89	
Expected volatility	54.6	%	60.03-76.57	%
Risk-free interest rate	0.2	%	0.18-0.95	%
Annual dividend yield	—		—	

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

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

Table of Contents

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

Effective May 1, 2009, the Company amended the 2006 Research Agreement to extend the term of the agreement for an additional four years. Under the amendment, the Company is obligated to pay USC up to $7,456,294 for work actually performed during the extended term, which runs through April 30, 2013. From May 1, 2009 through September 30, 2010, the Company incurred $1,214,705 in research and development expense for work performed under the amended 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 accrued royalty expense in connection with this agreement of $136,613 and $64,986 for the three months ended September 30, 2010 and 2009, respectively, and $318,245 and $160,116 for the nine months ended September 30, 2010 and 2009, respectively.

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

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

6. EQUITY AND CASH COMPENSATION UNDER THE PPG INDUSTRIES AGREEMENTS

On October 1, 2000, the Company entered into a five-year Development and License Agreement (“Development Agreement”) and a seven-year Supply Agreement (“Supply Agreement”) with PPG Industries. Under the Development Agreement, a team of PPG Industries scientists and engineers assisted the Company in developing its proprietary

OLED materials and supplied the Company with these materials for evaluation purposes. Under the Supply Agreement, PPG Industries supplied the Company with its proprietary OLED materials that were intended for resale to customers for commercial purposes.

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

Table of Contents

Under the OLED Materials Agreement, the Company compensates PPG Industries on a cost-plus basis for the services provided during each calendar quarter. The Company is required to pay for some of these services in all cash and for other of the services through the issuance of shares of the Company's common stock. Up to 50% of the remaining services are payable, at the Company's sole discretion, in cash or shares of the Company's common stock, with the balance payable in all cash. The actual number of shares of common stock issuable to PPG Industries is determined based on the average closing price for the Company's common stock during a specified number of days prior to the end of each calendar half-year period ending on March 31 and September 30. If, however, this average closing price is less than $6.00, the Company is required to compensate PPG Industries in all cash.

The Company is also required under the OLED Materials Agreement to reimburse PPG Industries for its raw materials and conversion costs for all development chemicals produced on behalf of the Company. On a quarterly basis, the Company allocates a portion of these costs that relate to development chemicals sold to cost of chemicals sold, with the remainder of these costs being allocated to research and development expense.

The Company issued 41,978 and 91,392 shares of the Company's common stock to PPG Industries as consideration for services provided by PPG Industries under the OLED Materials Agreement during the nine months ended September 30, 2010 and 2009, respectively. For a portion of these shares, the Company recorded expense of $269,288 for the three months ended September 30, 2009. For these shares, the Company recorded expense of $500,757 and $851,589 for the nine months ended September 30, 2010 and 2009, respectively.

On October 15, 2010, the Company issued an additional 19,126 shares of its common stock to PPG Industries, based on final accounting for actual costs incurred by PPG Industries during the six months ended September 30, 2010. Accordingly, the Company accrued $395,427 of additional expense as of September 30, 2010, of which $338,961was recorded for the three months ended September 30, 2010.

During the three months ended September 30, 2010 and 2009, the Company recorded expense of $775,059 and $566,353, respectively, for the cash portion of the reimbursement. For the nine months ended September 30, 2010 and 2009, the Company recorded expense of $1,606,621 and $1,906,045, respectively, for the cash portion of the reimbursement.

7. SHAREHOLDERS' EQUITY

	Series A Nonconvertible Preferred Stock		Common Stock (A)		Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income	Total Shareholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	(Loss)	Equity
BALANCE, JANUARY 1, 2010	200,000	$2,000	36,818,440	$368,184	$256,340,530	$(197,108,705)	$25,517	$59,627,526
Net loss	—	—	—	—	—	(14,600,996)	—	(14,600,996)
Other comprehensive (loss) income:								
Unrealized loss on available-for-sale securities	—	—	—	—	—	—	(8,072)	(8,072)

Initial prior service cost for retirement plan	—	—	—	—	—	—	(5,611,079)	(5,611,079)
Amortization of prior service cost for retirement plan	—	—	—	—	—	—	292,245	292,245
Comprehensive loss								(19,927,902)
Exercise of common stock options and warrants, net	—	—	732,487	7,325	7,160,237	—	—	7,167,562
Stock-based employee compensation, net of shares withheld for taxes (B)	—	—	641,480	6,415	2,262,474	—	—	2,268,889
Stock-based non-employee compensation	—	—	335	3	43,305	—	—	43,308
Issuance of common stock to Board of Directors and Scientific Advisory Board (C)	—	—	56,190	562	974,602	—	—	975,164
Issuance of common stock in connection with materials and license agreements (D)	—	—	49,178	492	581,538	—	—	582,030
Issuance of common stock under an Employee Stock Purchase Plan	—	—	17,043	171	191,447	—	—	191,618
BALANCE, SEPTEMBER 30, 2010	200,000	$2,000	38,315,153	$383,152	$267,554,133	$(211,709,701)	$(5,301,389)	$50,928,195

11

(A) On June 24, 2010, shareholders approved an amendment to the Company's Amended and Restated Articles of Incorporation to increase the number of authorized shares of the Company's common stock from 50,000,000 to 100,000,000. The amendment was filed with the Pennsylvania Department of State, and became effective, on July 13, 2010.

(B) Includes $1,513,710 (106,825 shares) that was accrued for in a previous period and charged to expense when earned, but issued in 2010, less shares withheld for taxes in the amount of $584,158 (41,225 shares).

(C) Includes $314,181 (38,910 shares) that was earned in a previous period and charged to expense when earned, but issued in 2010.

(D) The Company was required to pay Motorola royalties of $162,558 for the year ended December 31, 2009. In March 2010, the Company issued to Motorola 7,200 shares of the Company's common stock, valued at $81,273, and paid Motorola $81,285 in cash to satisfy this royalty obligation.

8. STOCK-BASED COMPENSATION

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

Equity Compensation Plan

In 1995, the Board of Directors of the Company adopted a Stock Option Plan (the "1995 Plan"), under which options to purchase a maximum of 500,000 shares of the Company's common stock were authorized to be granted at prices not less than the fair market value of the common stock on the date of the grant, as determined by the Compensation Committee of the Board of Directors. Through September 30, 2010, the Company's shareholders have approved increases in the number of shares reserved for issuance under the 1995 Plan to 7,000,000, and have extended the term of the plan through 2015. The 1995 Plan was also amended and restated in 2003, and is now called the Equity Compensation Plan. The Equity Compensation Plan provides for the granting of incentive and nonqualified stock options, shares of common stock, stock appreciation rights and performance units to employees, directors and consultants of the Company. Stock options are exercisable over periods determined by the Compensation Committee, but for no longer than 10 years from the grant date.

During the nine months ended September 30, 2010, the Company did not grant any options to employees. The Company recorded as compensation expense related to the vesting of all employee stock options an expense of zero and $28,649 for the three months ended September 30, 2010 and 2009, respectively, and an expense of $30,497 and $70,619 for the nine months ended September 30, 2010 and 2009, respectively.

During the nine months ended September 30, 2010, the Company granted to a non-employee options to purchase 10,000 shares of the Company's common stock, which options have since been exercised. These stock options vested immediately and had exercise prices of $8.56 and $9.44. The fair value of the options granted was $38,366, which was charged to research and development expense for the nine months ended September 30, 2010.

During the nine months ended September 30, 2010, the Company granted 607,069 shares of restricted stock awards and restricted stock units to employees. The shares associated with these restricted stock awards and restricted stock units had a fair value of $7,877,623 on the date of grant and will vest in equal increments annually over two to five years from the date of grant, provided that the grantee is still an employee of the Company on the applicable vesting date.

For the nine months ended September 30, 2010 and 2009, the Company recorded compensation expense related to the vesting of restricted stock awards and restricted stock units previously granted to employees. These expenses were charged to general and administrative expense in amounts of $577,609 and $252,420, and to research and development expense in amounts of $112,474 and $113,745, for the three months ended September 30, 2010 and 2009, respectively, and $1,444,707 and $743,901 to general and administrative expense, and $344,863 and $348,752 to research and development expense, for the nine months ended September 30, 2010 and 2009, respectively.

During the nine months ended September 30, 2010, the Company also granted to employees 1,459 shares of common stock, which shares were issued and fully vested at the date of grant. For the fair value of fully-vested shares that were issued to employees, the Company recorded charges to research and development expense of zero and $6,917 for the three months ended September 30, 2010 and 2009, respectively, and $21,735 and $34,677 for the nine months ended September 30, 2010 and 2009, respectively.

During the nine months ended September 30, 2010, the Company granted to non-employees 335 shares of common stock, which shares were issued and fully vested at the date of grant. For the fair value of fully-vested shares that were issued to non-employees, the Company recorded charges to research and development expense of zero and $493 for the three months ended September 30, 2010 and 2009, respectively, and $4,942 and $2,983 for the nine months ended September 30, 2010 and 2009, respectively.

In connection with all common stock issued to employees for the nine months ended September 30, 2010, 80,569 shares of common stock with a fair value of $1,147,522 were withheld in satisfaction of tax withholding obligations.

For the nine months ended September 30, 2010, the Company issued 17,280 shares of common stock to members of its Board of Directors as partial compensation for services performed. For the fair value of shares issued to its Board of Directors, the Company recorded charges to general and administrative expense of $67,631 and $49,025 for the three months ended September 30, 2010 and 2009, respectively, and $202,892 and $147,075 for the nine months ended September 30, 2010 and 2009, respectively.

For the nine months ended September 30, 2010, the Company granted a total of 16,936 shares of restricted stock to certain members of its Scientific Advisory Board. These shares of restricted stock will vest and be issued in equal increments annually over three years from the date of grant, provided that the grantee is still engaged as a consultant of the Company on the applicable vesting date. The Company recorded charges to research and development expense for the vesting of all restricted stock awards to its Scientific Advisory Board of $208,687 and $95,763 for the three months ended September 30, 2010 and 2009, respectively, and $458,091 and $174,224 for the nine months ended September 30, 2010 and 2009, respectively.

Employee Stock Purchase Plan

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

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

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

For the nine months ended September 30, 2010, the Company issued 17,043 shares of its common stock under the ESPP, resulting in proceeds of $191,618. The Company recorded expenses of $6,783 and $6,793 to general and administrative expense and $14,132 and $10,448 to research and development expense related to the ESPP for the three months ended September 30, 2010 and 2009, respectively, which expenses equal the amount of the discount and the value of the look-back feature. The Company recorded expenses of $20,887 and $6,793 to general and administrative expense and $40,011 and $10,448 to research and development expense related to the ESPP for the nine months ended September 30, 2010 and 2009, respectively.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period. Diluted net loss per common share reflects the potential dilution from the exercise or conversion of securities into common stock, the impact of unvested restricted stock awards and restricted stock units and shares to be issued under the ESPP. For the nine months ended September 30, 2010 and 2009, the effects of the exercise of the combined outstanding stock options and warrants and unvested restricted stock awards and restricted stock units of 3,777,027 and 4,406,520, respectively, and the impact of shares to be issued under the ESPP, which was minor, were excluded from the calculation of diluted EPS as the impact would have been antidilutive.

9. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

On March 18, 2010, the Compensation Committee and the Board of Directors of the Company approved and adopted the Universal Display Corporation Supplemental Executive Retirement Plan (the “SERP”), effective as of April 1, 2010. The purpose of the SERP, which is unfunded, is to provide certain of the Company’s executive officers with supplemental pension benefits following a cessation of their employment. As of September 30, 2010 there were five participants in the SERP.

The SERP benefit is based on a percentage of the participant’s annual base salary. For this purpose, annual base salary means 12 times the highest monthly base salary paid or payable to the participant during the 24-month period immediately preceding the participant’s date of termination of employment, or, if required, the date of a change in control of the Company.

Under the SERP, if a participant resigns or is terminated without cause at or after age 65 and with at least 20 years of service, he or she will be eligible to receive a SERP benefit. The benefit is based on a percentage of the participant’s annual base salary for the life of the participant. This percentage is 50%, 25% or 15%, depending on the participant’s benefit class. All current participants in the SERP are in the 50% benefit class.

If a participant resigns at or after age 65 and with at least 15 years of service, he or she will be eligible to receive a prorated SERP benefit. If a participant is terminated without cause or on account of a disability after at least 15 years of service, he or she will be eligible to receive a prorated SERP benefit regardless of age. The prorated benefit in either case would be based on the participant’s number of years of service (up to 20), divided by 20. In the event a participant is terminated for cause, his or her SERP benefit and any future benefit payments are subject to immediate forfeiture.

The SERP benefit is payable in installments over 10 years, beginning at the later of age 65 or the date of the participant’s separation from service. Payments are based on a present value calculation of the benefit amount for the actuarial remaining life expectancy of the participant. This calculation is made as of the date benefit payments are to begin (later of age 65 or separation from service). If the participant dies after reaching age 65, any future or remaining benefit payments are made to the participant’s beneficiary or estate. If the participant dies before reaching age 65, the benefit is forfeited.

In the event of a change in control of the Company, each participant will become immediately vested in his or her SERP benefit. Unless the participant’s benefit has already fully vested, if the participant has less than 20 years of service at the time of the change in control, he or she will receive a prorated benefit based on his or her number of years of service (up to 20), divided by 20. If the change in control qualifies as a “change in control event” for purposes of Section 409A of the Internal Revenue Code, then each participant (including former employees who are entitled to SERP benefits) will receive a lump sum cash payment equal to the present value of the benefit immediately upon the change in control.

Certain of our executive officers are designated as special participants under the SERP. If these participants resign or are terminated without cause after 20 years of service, or at or after age 65 and with at least 15 years of service, they will be eligible to receive a SERP benefit. If they are terminated without cause or on account of a disability, they will be eligible to receive a prorated SERP benefit regardless of age. The prorated benefit would be based on the participant’s number of years of service (up to 20), divided by 20.

The SERP benefit for special participants is based on 50% of their annual base salary for their life and the life of their surviving spouse, if any. Payments are based on a present value calculation of the benefit amount for the actuarial remaining life expectancies of the participant and their surviving spouse, if any. If they die before reaching age 65, the benefit is not forfeited if the surviving spouse, if any, lives until the participant would have reached age 65. If their spouse also dies before the participant would have reached age 65, the benefit is forfeited.

The Company records amounts relating to the SERP based on calculations that incorporate various actuarial and other assumptions, including discount rates, rate of compensation increases, retirement dates, and life expectancies. The net periodic costs are recognized as employees render the services necessary to earn the SERP benefits.

In connection with the initiation of the SERP, the Company recorded cost related to prior service of $5,611,079 as accumulated other comprehensive loss. The prior service cost is being amortized as a component of net periodic pension cost over the average of the remaining service period of the employees expected to receive benefits under the plan. The prior service cost expected to be amortized over the next three months and for full-year 2011 is $146,122 and $584,488, respectively.

Table of Contents

The components of net periodic pension cost were as follows:

	Three Months Ended September 30, 2010	Nine Months Ended