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UNIVERSAL DISPLAY CORP \PA\  
Form 10-Q/A  
March 27, 2003

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

FORM 10-Q/A

(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, 2002

( ) TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 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)

(609) 671-0980

-----  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date: As of November 11, 2002, the registrant had outstanding 21,509,610 shares of Common Stock, par value \$.01 per share.

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Subsequent to the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, the Company identified a \$1,953,479 understatement of deemed dividends to Preferred shareholders as of September 30, 2002 relating to the terms of the Series B Convertible Preferred Stock. The understatement affects the reported net loss applicable to Common shareholders, net loss per Common share, additional paid-in capital and accumulated deficit. However, the understatement does not affect reported expenses, net loss and cash flows for the quarter ended September 30, 2002. In addition, the understatement has no impact on the previously filed Annual Report on Form 10-K for the years ended December 31, 2001 and 2000. Note 7 in Notes to the Consolidated Financial Statements has been added to fully describe the restatement.

This amendment to the Company's Form 10-Q for the quarter ended September 30, 2002 amends and restates those items of the Form 10-Q originally filed on November 14, 2002 (the Original Filing) which have been affected by the restatement. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment to update such disclosures. Except as required to reflect the effects of the restatement, all information contained in this amendment is stated as of the date of the Original Filing.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY  
(a development-stage company)

CONSOLIDATED BALANCE SHEETS

Restated  
September 30, 2002  
(unaudited)  
-----

ASSETS

|                                  |                        |
|----------------------------------|------------------------|
| CURRENT ASSETS:                  |                        |
| Cash and cash equivalents        | \$ 17,512,267          |
| Short-term investments           | 2,784,566              |
| Restricted cash (Note 6)         | --                     |
| Accounts receivables             | 599,723                |
| Prepaid and other current assets | 706,727                |
|                                  | -----                  |
| Total current assets             | 21,603,283             |
| PROPERTY AND EQUIPMENT, net      | 5,029,848              |
| ACQUIRED TECHNOLOGY, net         | 13,523,543             |
| OTHER ASSETS                     | 33,763                 |
|                                  | -----                  |
| Total assets                     | \$ 40,190,437<br>===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

|  |           |
|--|-----------|
| CURRENT LIABILITIES:   |           |
| Convertible promissory notes (face value of<br>\$15,000,000, net of discounts) (Note 6)  | \$ --     |
| Capital lease obligations  | 4,596     |
| Accounts payable   | 1,177,124 |
| Accrued expenses   | 795,591   |
| Deferred revenues  | 1,084,167 |
|  | -----     |
| Total current liabilities  | 3,061,478 |
|  | -----     |
| CAPITAL LEASE OBLIGATIONS  | 5,103     |
|  | -----     |
| SHAREHOLDERS' EQUITY   |           |
| Preferred Stock, par value \$0.01 per share, 5,000,000 shares<br>authorized, 200,000 shares Series A Nonconvertible<br>Preferred Stock, issued and outstanding (liquidation value<br>of \$7.50 per share, \$1,500,000 in the aggregate) and 300,000<br>shares Series B Convertible Preferred Stock issued and<br>outstanding (liquidation value of \$21.48 per share,<br>\$6,444,000 in the aggregate) | 5,000     |
| Common Stock, par value \$.01 per share, 50,000,000<br>shares authorized, 21,400,580 and 18,093,124<br>issued and outstanding, respectively  | 214,006   |

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|  |               |
|--|---------------|
| Additional paid-in capital                   | 111,830,139   |
| Accumulated other comprehensive loss         | (3,479)       |
| Deficit accumulated during development-stage | (74,921,810)  |
|  | -----         |
| Total shareholders' equity                   | 37,123,856    |
|  | -----         |
| Total liabilities and shareholders' equity   | \$ 40,190,437 |
|  | =====         |

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY

(a development-stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

|  | Three Months Ended<br>September 30, |              |
|--|-------------------------------------|--------------|
|  | 2002<br>(restated)                  | 2001         |
|  | -----                               | -----        |
| REVENUE:                                   |                                     |              |
| Contract research revenue                  | \$ 331,138                          | \$ 4,138     |
| Development chemicals                      | 241,875                             | 1,138        |
|  | -----                               | -----        |
| Total revenue                              | 573,013                             | 5,276        |
|  | -----                               | -----        |
| OPERATING EXPENSES:                        |                                     |              |
| Research and development                   | 3,933,777                           | 1,233,777    |
| General and administrative                 | 1,077,341                           | 933,777      |
|  | -----                               | -----        |
| Total operating expenses                   | 5,011,118                           | 2,167,554    |
|  | -----                               | -----        |
| Operating loss                             | (4,438,105)                         | (1,532,278)  |
| INTEREST INCOME                            | 111,300                             | 111,300      |
| INTEREST EXPENSE                           | (651,325)                           | (531,325)    |
| DEBT CONVERSION AND EXTINGUISHMENT EXPENSE | (10,011,780)                        | (10,011,780) |
|  | -----                               | -----        |
| NET LOSS                                   | (14,989,910)                        | (1,953,479)  |
| DEEMED DIVIDEND TO PREFERRED SHAREHOLDERS  | (1,953,479)                         | (6,479)      |
|  | -----                               | -----        |
| NET LOSS APPLICABLE TO COMMON SHAREHOLDERS | \$ (16,943,389)                     | (2,603,478)  |
|  | =====                               | =====        |

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|   |            |       |
|---|------------|-------|
| BASIC AND DILUTED NET LOSS PER COMMON SHARE   | \$ (0.89)  | \$    |
|   | =====      | ===== |
| WEIGHTED AVERAGE SHARES USED<br>IN COMPUTING BASIC AND DILUTED<br>NET LOSS PER COMMON SHARE | 19,105,553 | 17,0  |
|   | =====      | ===== |

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY

(a development-stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

|  | Nine Months Ended<br>September 30, |                 |
|--|------------------------------------|-----------------|
|  | 2002<br>(restated)                 | 2001            |
|  | -----                              | -----           |
| REVENUE:                                   |                                    |                 |
| Contract research revenue                  | \$ 1,143,197                       | \$ 891,714      |
| Development chemicals                      | 419,768                            | 140,730         |
|  | -----                              | -----           |
| Total revenue                              | 1,562,965                          | 1,032,444       |
|  | -----                              | -----           |
| OPERATING EXPENSES:                        |                                    |                 |
| Research and development                   | 11,550,574                         | 8,528,379       |
| General and administrative                 | 3,350,880                          | 2,827,227       |
|  | -----                              | -----           |
| Total operating expenses                   | 14,901,454                         | 11,355,606      |
|  | -----                              | -----           |
| Operating loss                             | (13,338,489)                       | (10,323,162)    |
| INTEREST INCOME                            | 358,598                            | 373,646         |
| INTEREST EXPENSE                           | (2,874,835)                        | (509,236)       |
| DEBT CONVERSION AND EXTINGUISHMENT EXPENSE | (10,011,780)                       | --              |
|  | -----                              | -----           |
| NET LOSS                                   | (25,866,506)                       | (10,458,752)    |
| DEEMED DIVIDEND TO PREFERRED SHAREHOLDERS  | (1,953,479)                        | (689,416)       |
|  | -----                              | -----           |
| NET LOSS APPLICABLE TO COMMON SHAREHOLDERS | \$ (27,819,985)                    | \$ (11,148,168) |
|  | =====                              | =====           |

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|   |            |            |
|---|------------|------------|
| BASIC AND DILUTED NET LOSS PER COMMON SHARE   | \$ (1.50)  | \$ (0.66)  |
|   | =====      | =====      |
| WEIGHTED AVERAGE SHARES USED<br>IN COMPUTING BASIC AND DILUTED<br>NET LOSS PER COMMON SHARE | 18,490,810 | 16,881,743 |
|   | =====      | =====      |

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY

(a development-stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

|   | Nine Months Ended Sept |                 |
|---|------------------------|-----------------|
|   | -----                  |                 |
|   | 2002                   |                 |
|   | -----                  |                 |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                        |                 |
| Net loss  | \$ (25,866,506)        | \$ (10,000,000) |
| Adjustments to reconcile net loss to net cash<br>used in operating activities:  |                        |                 |
| Depreciation  | 1,332,825              |                 |
| Amortization of intangibles   | 1,271,304              |                 |
| Amortization of discounts on Convertible Promissory Note  | 13,044,467             |                 |
| Issuance of Common Stock options and warrants for services  | 423,962                |                 |
| Issuance of Common Stock and warrants in connection<br>with amended research and license agreements                   | --                     |                 |
| Issuance of Common Stock in connection with<br>executive compensation   | 16,150                 |                 |
| Issuance of redeemable Common Stock, Common Stock<br>options and warrants in connection with<br>development agreement | 3,830,753              |                 |
| Issuance of Common Stock options and warrants for<br>Scientific Advisory Board  | --                     |                 |
| Acquired in-process technology  | --                     |                 |
| (Increase) decrease in assets:  |                        |                 |
| Accounts Receivables  | (58,868)               |                 |
| Other current assets  | (350,907)              |                 |
| Other assets  | (13,638)               |                 |
| Increase (decrease) in liabilities:   |                        |                 |
| Accounts payable and accrued expenses   | 278,467                |                 |
| Payable to related parties  | --                     |                 |
| Deferred revenue  | 634,167                |                 |

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|   |               |       |
|---|---------------|-------|
| Net cash used in operating activities                           | (5,457,824)   | (6)   |
| CASH FLOWS FROM INVESTING ACTIVITIES:                           |               |       |
| Purchase of equipment   | (1,066,496)   |       |
| Purchase of intangibles   | --            |       |
| Purchase of short-term investments                              | (3,087,506)   | (4)   |
| Proceeds from sale of short-term investments                    | 4,819,585     | 3     |
| Restricted cash   | 15,162,414    |       |
| Net cash provided by (used in) investing activities             | 15,827,997    | (1)   |
| CASH FLOWS FROM FINANCING ACTIVITIES:                           |               |       |
| Proceeds from issuance of Common Stock                          | 7,644,337     | 1     |
| Proceeds from issuance of Preferred Stock                       | --            | 4     |
| Proceeds from issuance of Convertible Promissory Note           | --            | 15    |
| Repayment of Convertible Promissory Notes                       | (8,399,997)   |       |
| Proceeds from the exercise of Common Stock options and warrants | 17,750        | 1     |
| Principal payments on capital lease                             | (3,128)       |       |
| Net cash provided by (used in) financing activities             | (741,038)     | 21    |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                | 9,629,135     | 13    |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                  | 7,883,132     | 7     |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                        | \$ 17,512,267 | \$ 21 |

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARY  
(a development-stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

NOTE 1. BACKGROUND

Universal Display Corporation (the "Company"), a development-stage company, is engaged in the research, development and commercialization of organic light emitting diode ("OLED") technology for potential flat panel display applications.

The Company, formerly known as Enzymatics, Inc. ("Enzymatics"), was incorporated under the laws of the Commonwealth of Pennsylvania on April 24, 1985 and commenced its current business activities on August 1, 1994. The New Jersey corporation formerly known as Universal Display Corporation ("UDC") was incorporated under the laws of the State of New Jersey on June 17, 1994. UDC was renamed UDC, Inc. on December 14, 1995 and is a wholly-owned subsidiary of the Company.

Research and development of the OLED technology is being conducted at the Advanced Technology Center for Photonics and Optoelectronic Materials at Princeton University and at the University of Southern California ("USC") (on a subcontract basis with Princeton University), pursuant to a Sponsored Research

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Agreement dated August 1, 1994, as amended (the "1994 Sponsored Research Agreement"), originally between the Trustees of Princeton University ("Princeton University") and American Biomimetics Corporation ("ABC"), a privately held Pennsylvania corporation and affiliate of the Company. In October 1997, the Company entered into a new 5-year Sponsored Research Agreement with Princeton University and USC (the "1997 Sponsored Research Agreement") for research and development of the OLED technology (Note 3). In the second quarter of 2002, the Company amended the 1997 Sponsored Research Agreement with Princeton providing, among other things, for an additional five-year term, extending it through July 31, 2007. Pursuant to a license agreement dated August 1, 1994 (the "1994 License Agreement") between Princeton University and ABC, assigned to the Company by ABC in June 1995, the Company has a worldwide exclusive license to manufacture and market products based on Princeton University's pending patent application relating to the OLED technology and the right to obtain a similar license to inventions conceived or discovered under the 1994 Sponsored Research Agreement and to sublicense such rights. In October 1997, the Company amended the 1994 License Agreement (the "1997 Amended License Agreement") to modify certain terms of its license thereunder (Note 3).

The Company is also engaged in research, development and commercialization activities at its 21,000 square foot facility leased in Ewing, New Jersey. In 1999 the Company entered into a lease for 11,000 square feet. The Company moved its operations to this facility in the fourth quarter of 1999. In the second quarter of 2001, the Company signed a lease for an additional 10,000 square feet.

The Company is a development-stage entity with no significant operating activity to date. Expenses incurred have primarily been in connection with research and development funding and activities, obtaining financing and administrative activities. The developmental nature of the activities is such that significant inherent risks exist in the Company's operations. Completion of the commercialization of the Company's technology will require funds substantially greater than the Company currently has available. There is no assurance that such financing will be available to the Company, on commercially reasonable terms or at all. The Company anticipates, based on management's internal forecasts and assumptions relating to its operations, that it has sufficient cash, cash equivalents and short term investments to meet its obligations through at least the end of its current fiscal year, which will end December 31, 2002. To the extent that Princeton University's research efforts do not result in the development of commercially viable applications for the OLED technology, the Company will not have any meaningful operations. Even if a product incorporating the OLED technology is developed and introduced into the marketplace, additional time and funding may be necessary before significant revenues are realized. While the Company funds the OLED technology research, the scope of and technical aspects of the research and the resources and efforts directed to such research are subject to the control of Princeton University and the principal investigators.

Accordingly, the Company's success is largely dependent on the efforts of Princeton University and the principal investigators. The 1997 Sponsored Research Agreement provides that if certain of the principal investigators are unavailable to continue to serve as principal investigators, because such persons are no longer associated with Princeton University or otherwise, and successors acceptable to both the Company and Princeton University are not available, the 1997 Sponsored Research Agreement will terminate.



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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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, 2002, the results of operations for the three and nine months ended September 30, 2002 and 2001, and cash flows for the nine months ended September 30, 2002 and 2001. Interim results may not be indicative of the results that may be expected for the year. 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 were included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

#### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Universal Display Corporation and its wholly owned subsidiary, UDC, Inc. All significant intercompany transactions and accounts have been eliminated.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

#### 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 in accordance with the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These securities are carried at fair market value, with unrealized gains and losses reported in shareholders' equity as a component of accumulated other comprehensive income (loss). Gains or losses on securities sold are based on the specific identification method. The Company reported accumulated unrealized holding losses of \$3,479 and \$3,925 at September 30, 2002 and December 31, 2001, respectively. Comprehensive loss, which includes the net loss and change in unrealized holding losses, was \$25,866,060 and \$11,142,876 for the nine months ended September 30, 2002 and 2001, respectively and \$14,991,898 and \$2,595,316 for the three months ended September 30, 2002 and 2001, respectively.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, short-term investments, restricted cash, accounts receivables, prepaid and other current assets, accounts payable and accrued expenses are reflected in the accompanying financial statements at fair value due to the short-term nature of those instruments. The carrying amounts of capital lease obligations approximate fair value at the balance sheet dates.

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### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciated on a straight-line basis over 3 to 7 years for office and lab equipment and furniture and fixtures, and over the lesser of the lease term or useful life for leasehold improvements. Repair and maintenance costs are charged to expense as incurred. Additions and betterments are capitalized.

### ACQUIRED TECHNOLOGY

Acquired technology consists of acquired license rights for patents and know-how obtained from PD-LD, Inc. and Motorola (Note 4). The intangible asset consists of the following:

|                                | September 30, 2002 | December 31, 2001 |
|--------------------------------|--------------------|-------------------|
|                                | -----              | -----             |
| PD-LD, Inc.                    | \$ 1,481,250       | \$ 1,481,250      |
| Motorola                       | 15,469,468         | 15,469,468        |
|                                | -----              | -----             |
|                                | 16,950,718         | 16,950,718        |
| Less: Accumulated amortization | (3,427,175)        | (2,155,871)       |
|                                | -----              | -----             |
| Acquired technology, net       | \$ 13,523,543      | \$ 14,794,847     |
|                                | =====              | =====             |

Acquired technology is amortized on a straight-line basis over its estimated useful life of ten years.

### LONG-LIVED ASSETS

Management continually evaluates whether events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted cash flows in measuring whether the long-lived asset should be written down to fair value. Measurement of the amount of the impairment will be based on generally accepted valuation methodologies, as deemed appropriate. As of September 30, 2002 and December 31, 2001, management believes that no revision to the remaining useful lives or write-down of long-lived assets is required.

### NET LOSS PER COMMON SHARE

Basic earnings per share (EPS) is computed by dividing the net loss by the weighted-average number of Common shares outstanding for the period. Diluted EPS reflects the potential dilution from the exercise or conversion of securities into Common Stock. For the three and nine months ended September 30, 2002 and 2001 the effects of the exercise of 7,872,683 and 6,645,527 outstanding stock options and warrants, respectively, were excluded from the calculation of diluted EPS as the impact would be antidilutive.

### REVENUE RECOGNITION AND DEFERRED REVENUE

Contract revenues represent reimbursements by government entities for all or a portion of the research and development costs the Company incurs related to the contracts. Revenues are recognized proportionally as the research and development costs are incurred.

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Development chemical revenues represent the sale of evaluation chemicals to potential OLED display manufacturers. The chemicals are used to evaluate the Company's proprietary OLED material system. Revenues are recognized at the time of shipment and passage of title.

The Company also receives non-refundable advanced license payments in connection with certain joint development and technology evaluation agreements it enters into. These payments are deferred until a license agreement is executed, or negotiations have ceased, and there is no likelihood of executing a license agreement. Revenues will be recorded over the expected life of the licensed technology, if there is an effective license agreement, or at the time the negotiations show no likelihood of an executable license agreement.

### RESEARCH AND DEVELOPMENT

Expenditures for research and development are charged to operations as incurred.

### RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and retirement of assets. The Company does not expect the adoption of SFAS No. 143 to have an impact on the consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Statement updates, clarifies and simplifies existing accounting pronouncements relating to gains and losses from extinguishment of debt and certain lease modifications. Certain provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002, while other provisions are effective for transactions occurring after May 15, 2002. The Company has adopted SFAS No. 145 early, and as a result, the loss on extinguishment of debt (Note 6), has been classified within continuing operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and nullifies EITF 94-3. The Company plans to adopt SFAS No. 146 in January 2003. Management believes that the adoption of this statement will not have a material effect on the Company's future results of operations or financial position.

### STATEMENT OF CASH FLOW INFORMATION

The following non-cash investing and financing activities occurred:

|  | Nine Months Ended<br>September 30, |              |
|--|------------------------------------|--------------|
|  | 2002                               | 2001         |
| Common Stock, options and warrants to acquire Common Stock in development agreement (Note 5) | \$ 3,830,753                       | \$ 1,694,824 |
| Common Stock issued upon conversion of Notes (Note 6)  | 7,999,998                          | -            |

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|   |              |              |
|---|--------------|--------------|
| Common Stock issued for the purchase of equipment | -            | 43,776       |
|   | -----        | -----        |
|   | \$11,830,751 | \$ 1,738,600 |
|   | =====        | =====        |

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STOCK OPTIONS

The Company accounts for its stock option plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized for options issued to employees at fair market value on the date of grant. In 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 established a fair value based method of accounting for stock-based compensation plans. SFAS No. 123 requires that a company's financial statements include certain disclosures about stock-based employee compensation arrangements regardless of the method used to account for the plan. The Company accounts for its stock option and warrant grants to non-employees in exchange for goods or services in accordance with SFAS No. 123 and Emerging Issues Task Force No. 96-18 ("EITF 96-18"). SFAS 123 and EITF 96-18 require that the Company account for its option and warrant grants to non-employees based on the fair value of the options and warrants granted.

NOTE 3. SPONSORED RESEARCH AGREEMENT WITH PRINCETON UNIVERSITY

On October 9, 1997, the Company entered into the 1997 Sponsored Research Agreement with Princeton University and entered into a 1997 Amended License Agreement with Princeton University and USC amending its 1994 License Agreement with Princeton University. The 1997 Sponsored Research Agreement continues and expands the sponsored research, which commenced in 1994, under which the Company funds additional research and development work at Princeton University (and at USC under a subcontract with Princeton University) in OLED technology. The 1997 Sponsored Research Agreement requires the Company to pay up to \$4.4 million commencing on July 31, 1998 through July 31, 2002. In April 2002, the Company amended the 1997 Sponsored Research Agreement with Princeton providing, among other things, for an additional five-year term. The Company is obligated to pay Princeton up to \$7.5 million commencing on July 31, 2002 through July 31, 2007. The amounts due to Princeton University are charged to expense when paid by the Company. Under the 1997 License Agreement, the Company has the worldwide exclusive and perpetual license to manufacture and market products based on Princeton University's and USC's pending patent applications relating to the OLED technology and conceived under the 1994 and 1997 Sponsored Research Agreements, and the right to sublicense its rights under the 1997 License Agreement. The Company is required to pay Princeton University a royalty of 3% of the Company's net sales of products utilizing the OLED technology. In circumstances where the Company sublicenses the OLED technology (except to affiliates), the royalty required to be paid by the Company was reduced in the 1997 License Agreement from 50% to 3%. These royalty rates are subject to upward adjustments under certain conditions. Under the 1997 Amended License Agreement, the Company is obligated to pay to Princeton University minimum royalties of \$100,000 per year. Accordingly, the Company accrued \$75,000 of research and development expense for the nine months ended September 30, 2002 for the minimum royalties due.

In order to protect Princeton University's tax exempt status, the 1997 License Agreement provides that Princeton University may, in its sole discretion, determine whether, pursuant to the provisions of the Tax Reform Act of 1986, it

is required to negotiate the royalties and other considerations payable to Princeton University on products not reasonably conceivable by the parties at the time of execution of the 1994 License Agreement. If Princeton University reasonably concludes that the consideration payable by the Company for any such product is not fair and competitive, Princeton University may exercise its right to renegotiate the royalties and other consideration payable by the Company for any such product prior to the expiration of 180 days after the first patent is filed or other intellectual property protection is sought. The Company has the right to commence arbitration proceedings to challenge Princeton University's exercise of such renegotiation rights. If the parties are unable to agree to royalties and other consideration for such products within a specified period of time, then Princeton University is free to license to third parties without repayment of any funds provided under the 1997 Sponsored Research Agreement.

NOTE 4. ACQUIRED TECHNOLOGY

On July 19, 2000, the Company, PD-LD, Inc. ("PD-LD") and Princeton University entered into a Termination, Amendment and License Agreement whereby the Company acquired all PD-LD's rights to certain issued and pending patents and technology known as organic vapor phase deposition ("OVPD") in exchange for 50,000 shares

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of the Company's Common Stock. Pursuant to this transaction, the Company has included in its License Agreement with Princeton the exclusive license to all Princeton patents and technology related to OVPD, whether developed pursuant to its research agreements with Princeton or otherwise. The acquisition of these patents had a fair value of \$1,481,250 (Note 2).

On September 29, 2000, the Company entered into a license agreement with Motorola, Inc. ("Motorola"). Pursuant to the license agreement, the Company licensed from Motorola 72 US patents, 6 US patent applications, and additional foreign patents. These patents expire between 2012 and 2018. The Company has the sole right to sublicense these Motorola patents to manufacturers. As consideration for the licenses, the Company issued to Motorola 200,000 shares of Common Stock (valued at \$4,412,500), 300,000 shares of Series B Convertible Preferred Stock (valued at \$6,618,750), and a warrant to purchase 150,000 shares of Common Stock at \$21.60 per share. The warrant was exercisable immediately and will remain exercisable until September 29, 2007. The warrant was recorded at fair market value of \$2,206,234 based on the Black-Scholes option-pricing model and was recorded as a component of the costs of the acquired technology. The Company also issued a warrant to acquire 150,000 shares of Common Stock as a finder's fee in connection with this transaction. The warrant was granted with an exercise price of \$21.60 per share. The warrant was exercisable immediately upon grant and will remain exercisable until September 29, 2007. This warrant was accounted for at its fair value based on the Black-Scholes option pricing model and \$2,206,234 was recorded as a component of the cost of the acquired technology. The Company used the following assumptions in the Black-Scholes option pricing model for warrants to purchase an aggregate of 300,000 shares of Common Stock issued in connection with this transaction: (1) 6.3% risk-free interest rate, (2) expected life of 7 years, (3) 60% volatility, and (4) zero expected dividend yield. In addition, the Company incurred \$25,750 of direct cash transaction costs that have been included in the cost of the acquired technology. In total, the Company recorded an intangible asset of \$15,469,468 for the technology acquired from Motorola (Note 2). In addition, the Company will pay to Motorola a royalty based on future sales of products incorporating OLED technology. Such royalty payments may be made, at the Company's discretion,

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either all in cash or (50%) in cash and (50%) in shares of Common Stock. The number of shares of Common Stock used to pay the royalty portion shall be equal to 50% of the royalty amount due divided by the average daily closing price per share of stock over the ten trading days ending two business days prior to the date the Common Stock is issued.

### NOTE 5. COMMON STOCK AND WARRANTS ISSUED IN DEVELOPMENT AND LICENSE AGREEMENT

On October 1, 2000, the Company entered into a five- year Development and License Agreement with PPG Industries, Inc. ("PPG") to leverage the Company's OLED flat panel display technology with PPG's expertise in the development and manufacturing of organic materials. A team of PPG scientists and engineers are assisting the Company in developing and commercializing its proprietary OLED material system. In consideration for PPG's services under the agreement, the Company will issue shares of Common Stock and warrants to acquire Common Stock to PPG on an annual basis over the period from January 1, 2001 through December 31, 2005. The amount of securities issued is subject to adjustment under certain circumstances, as described in the agreement.

In accordance with the PPG agreement, the Company issued 3,019 shares of Common Stock to PPG in February 2002. The additional shares were issued as a result of the final accounting for actual costs incurred by PPG in 2001. Accordingly, the Company accrued \$27,473 of research and development expense as of December 31, 2001 based on the fair value of the additional shares.

In accordance with the agreement, the Company also issued warrants to PPG to acquire 121,843 shares of Common Stock as part of the consideration for services performed during 2001. The warrants were earned during 2001, but were not issued until February 2002. The number of warrants earned and issued is based on the number of shares of Common Stock earned by, and issued by the Company to, PPG during the calendar year.

During the first quarter of 2002 and 2001, the Company issued to PPG 344,379 and 118,824 shares of Common Stock, respectively, as consideration for services required under the agreement for 2002 and 2001.

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Under Emerging Issues Task Force Topic D-90, equity instruments that are conditionally transferred to another party and subject to forfeiture for non-performance of future goods or services should not be considered issued for accounting purposes until such time as performance has occurred. Accordingly, the Company will record the issuance of the shares as they are earned. For the nine months ended September 30, 2002 and 2001, PPG earned 262,225 and 89,850 shares of the Common Stock, respectively. The Company recorded charges to research and development expense of \$2,078,539 and \$1,023,504 during the nine months ended September 30, 2002 and 2001, respectively, representing the fair value of the shares earned.

During the nine months ended September 30, 2002 and 2001, the Company also recorded charges to research and development expense of \$1,652,094 and \$597,422, respectively. These charges were recorded based on the estimated fair value of warrants that were earned by PPG during these periods. The Company determined the fair value of the warrants earned during 2002 and 2001 using the Black-Scholes option-pricing model with the following assumptions: (1) risk free interest rate of 3.250%-5.443% and 4.511%-5.595, (2) no expected dividend yield, (3) expected life of 7 years, and (4) expected volatility of 94% and 70%, respectively.

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In accordance with the terms of the PPG agreement, on December 14, 2000, the Company granted options to PPG employees to acquire 26,000 shares of Common Stock. These options vested over a one-year period, have an exercise price of \$9.44 per share and expire ten years after the date of grant. During the nine months ended September 30, 2001, the Company recorded a charge of \$73,899 to research and development expense, representing the fair market value, determined in accordance with the Black-Scholes option-pricing model, of the stock option awards that were earned. On December 17, 2001, the Company granted options to purchase an additional 26,333 shares of Common Stock to PPG employees. These options vest over a one-year period, have an exercise price of \$8.56 per share and expire ten years after the date of grant. During the nine months ended September 30, 2002, the Company recorded \$104,987 in research and development costs related to these options. On September 23, 2002, the Company granted options to purchase an additional 30,000 shares to PPG employees. These options vest over a one-year period, have an exercise price of \$5.45 and expire ten years after the date of grant. The Company recorded \$3,109 in research and development costs related to these options. The Company determined the fair value of the options earned during the nine months ended September 30, 2002 and 2001 using the Black-Scholes option-pricing model with the following assumptions: (1) risk free interest rate of 3.7%, 5.421% and 4.767%, (2) no expected dividend yield, (3) expected life of 10, and (4) expected volatility of 94% and 70%, respectively.

### NOTE 6. RESTRICTED CASH AND CONVERTIBLE PROMISSORY NOTES

In August 2001, the Company issued two \$7,500,000 Notes, each with a maturity date of August 22, 2004, in a private placement. The Notes were convertible into shares of the Common Stock at an initial conversion price of \$13.97 per share, with such conversion price subject to change based on anti-dilution provisions and other adjustments. In August 2002, the Company completed a registered direct offering of Common Stock to institutional investors that was deemed dilutive under the terms of the Notes. As a result, the conversion price of the Notes was reduced to \$5.09. In September 2002, \$7,000,002 in principal amount of the Notes was converted into 1,375,246 shares of Common Stock and \$7,999,998 in principal amount of the Notes was repaid, together with a prepayment premium, established under the Notes, of \$400,000.

The Company's obligations under the Notes were secured by irrevocable letters of credit issued with a face amount equal to the outstanding principal of the related Notes. The \$15,000,000 in proceeds from the sale of the Notes was pledged as collateral to the bank issuing the letters of credit. Prior to the conversion and repayment of the Notes, the \$15,000,000 in cash proceeds plus accrued but unpaid interest had been classified as restricted cash on the accompanying consolidated balance sheet as of December 31, 2001.

In accordance with APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants" ("APB No. 14"), the Company determined in August 2001 the relative fair value of the Notes to be \$9,857,006. The resulting original issuance discount ("OID") of \$5,142,994 was being amortized as interest expense, using the effective interest method, over the original maturity period of three years. During the nine months ended September 30, 2002, the Company recognized a non-cash charge to interest expense of \$1,819,989 for the amortization of the OID.

In accordance with Emerging Issues Task Force ("EITF") No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF No. 00-27"), and EITF No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" ("EITF No. 98-5"), and

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after considering the allocation of the proceeds to the Notes, the Company determined in August 2001 that the Notes contained an initial beneficial conversion feature ("BCF"). The BCF existed at the commitment date due to the fact that the carrying value of the Notes, after the initial allocation of the proceeds, was less than the fair market value of the Common Stock that was issuable upon conversion. Accordingly, the Company recorded \$3,258,468 of BCF in August 2001 as a debt discount. The BCF debt discount was being amortized as interest expense, using the effective interest method, over the original maturity period of three years. During the nine months ended September 30, 2002, the Company recognized a non-cash charge to interest expense of \$1,212,697 for the amortization of the BCF.

In connection with the August 2002 registered direct offering, the conversion price of the Notes was reduced to \$5.09 per share. In accordance with EITF No. 98-5, the reduction in the conversion price resulted in \$7,441,547 of contingent BCF which was recorded as additional debt discount to be amortized over the remaining term of the Notes. At the date of the conversion and repayment of the Notes in September 2002, the \$15,000,000 face value of the Notes exceeded the then carrying value of the Notes as a result of the unamortized OID and BCF. As a result, the Company recognized a non-cash debt conversion and extinguishment expense of \$10,011,780 upon conversion and repayment of the Notes.

### NOTE 7. SERIES B CONVERTIBLE PREFERRED STOCK

In 2000, the Company issued 300,000 shares of Series B Convertible Preferred Stock ("Series B") to Motorola (Note 4). The Series B shares rank senior to the Common Stock and any other capital stock of the Company ranking junior to the Series B as to dividends and upon liquidation, dissolution or winding up. There are no restrictions upon the Company to create any other class of stock ranking equivalent or senior to the Series B shares. The Series B shares have a liquidation value of \$21.48 per share, plus accrued and unpaid dividends. Holders of Series B shares are entitled to that number of votes equal to the largest of whole shares of Common Stock into which the Series B shares could be converted on matters which shareholders are generally entitled to vote. The Series B shareholders are entitled to dividends that are declared or paid to holders of the Common Stock.

Each share of the Series B is convertible, at the option of the holder, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the original purchase price by the conversion price applicable to such share determined on the date the certificate is surrendered for conversion. Of the 300,000 shares of the Series B, 75,000 shares become convertible on each of September 29, 2001, 2002, 2003 and 2004, with all outstanding shares of the Series B being converted automatically into shares of the Company's Common Stock on September 29, 2004. The conversion price for the Series B shares is initially the original issuance price per share of the Common Stock, but is subject to change if the average price of the Common Stock falls below \$12.00 for the 30 trading days ending two business days prior to the relevant conversion date, regardless of prior changes to the conversion price. The Company has the option to pay Series B shareholders an amount of cash equal to the difference between \$12.00 and the average price of the Common Stock, multiplied by the number of shares of Common Stock into which the Series B shares would be convertible. Two business days prior to the September 29, 2002 and 2001 conversion dates, the Company's average stock price for the preceding 30 trading days was \$5.50 and \$10.81, respectively. As such, the original conversion price was adjusted in accordance with the conversion terms of the Series B, the conversion prices were reduced to \$9.85 and \$19.35, respectively, resulting in additional 88,553 and 8,256 shares of Common Stock being issuable to Motorola upon conversion. The incremental shares issuable upon conversion were accounted for as a contingent beneficial conversion feature ("CBCF") in accordance with EITF No. 00-27. The CBCF was measured by multiplying the incremental shares by the fair value of the Company's Common Stock on the



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commitment date of September 29, 2000, which was \$22.06. Accordingly, the Company recorded a CBCF in an amount of \$1,953,479 and \$182,127 in 2002 and 2001, respectively. The CBCF was treated as a deemed dividend to the Series B shareholders.

As a result of the deemed dividend in 2002, the following amounts have been restated in this Form 10-Q/A:

|   | Originally reported | Restated       |
|---|---------------------|----------------|
| Additional paid-in-capital  | \$ 109,876,660      | \$ 111,830,139 |
| Deficit accumulated during development stage  | (72,968,331)        | (74,921,810)   |
| Deemed dividend (three and nine months ended September 30, 2002)                    | --                  | 1,953,479      |
| Net loss applicable to Common shareholders (three months ended September 30, 2002)  | (14,989,910)        | (16,943,389)   |
| Basic and diluted net loss per Common share (three months ended September 30, 2002) | (0.78)              | (0.89)         |
| Net loss applicable to Common shareholders (nine months ended September 30, 2002)   | (25,866,506)        | (27,819,985)   |
| Basic and diluted net loss per Common share (nine months ended September 30, 2002)  | (1.40)              | (1.50)         |
| Deemed dividend (period from inception (June 17, 1994) to September 30, 2002)       | 2,517,336           | 4,470,815      |

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

All statements in this document that are not historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, subject to risks and uncertainties that could cause Universal Display Corporation's actual results to differ materially from those projected, including, but not limited to, statements regarding Universal Display Corporation's beliefs, expectations, hopes or intentions regarding the future. Forward-looking statements in this document also include statements regarding any financial forecasts or market growth predictions. Universal Display Corporation expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Universal Display Corporation's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statements are based. It is important to note that actual outcomes and Universal Display Corporation's actual results could differ materially from those in such forward-looking statements. Factors that could cause actual results to differ materially include risks and uncertainties such as: uncertainties relating to developments and advances in display technologies, including OLED, TOLED, FOLED, SOLED and PHOLED technology; the development and expansion of applications for OLED technology; the success of Universal Display Corporation and its development partners in accomplishing technological advances; the ability of Universal Display Corporation to enter into alliances with product manufacturers; product development, manufacturing, and marketing acceptance; uncertainties related to cost and pricing of Universal Display Corporation products; dependence on collaborative partners; and other competition, risks relating to intellectual property of others and the uncertainties of patent protection.

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### GENERAL

Since inception, the Company has been exclusively engaged, and for the foreseeable future expects to continue to be exclusively engaged, in funding and performing research and development activities related to the OLED technology and attempting to commercialize such technology. To date, the Company has not generated any significant revenues and does not expect to generate any meaningful revenues for the foreseeable future and until such time, if ever, as it successfully demonstrates that the OLED technology is commercially viable for one or more flat panel display applications and enters into license agreements with third parties with respect to the OLED technology. The Company has incurred significant losses since its inception, resulting in an accumulated deficit of \$74,921,810 at September 30, 2002. The rate of loss is expected to increase as the Company's activities increase and losses are expected to continue for the foreseeable future and until such time, if ever, as the Company is able to achieve sufficient levels of revenue from the commercial exploitation of the OLED technology to support its operations.

### RESULTS OF OPERATIONS

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

The Company had a net loss applicable to Common shareholders of \$16,943,389 (or \$0.89 per share) (restated) for the quarter ended September 30, 2002 compared to a loss of \$2,600,608 (or \$0.15 per share) for the same period in 2001. In the quarter ended September 30, 2002, 82% (\$13,879,480) of the net loss was attributed to three non-cash items, including a charge of \$10,948,025 for the amortization of discounts, conversion and repayment on convertible promissory notes (Note 6), a charge of \$977,976 for the issuance of Common Stock, options and warrants to purchase Common Stock to PPG in connection with a development agreement (Note 5), and a charge of \$1,953,479 related to the adjustment of the conversion price on the Series B (Note 7). In the same period in 2001, 39% (\$750,250) of the net loss was attributed to two non-cash items, including a charge of \$509,236 for the amortization of discounts on convertible promissory notes (Note 6), and a charge of \$241,014 for the issuance of Common Stock, options and warrants to purchase Common Stock to PPG in connection with a development agreement (Note 5).

The Company earned \$331,138 from contract research revenue in the quarter ended September 30, 2002 compared to \$436,801 for the same period in 2001. In the quarter ended September 30, 2002, contract research revenue consisted of: (i)

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\$151,907 recognized under a 24-month, \$2,977,471 Phase I contract received from the Defense Advanced Research Project Agency (DARPA), (ii) \$157,630 recognized under a two-year U.S. Department of Defense (DoD) Phase II SBIR Army Contract, (iii) \$19,455 recognized under a 9-month, \$100,000 Phase I contract received by the U.S. Department of Energy (DoE), and (iv) \$2,146 recognized under a 9-month, \$100,000 Phase I contract received by the DoE. In the same period in 2001, contract research revenue consisted of: (i) \$281,117 recognized under an 18-month, \$2,977,471 Phase I contract received from Defense Advanced Research Project Agency (DARPA), (ii) \$38,459 recognized under a two-year, \$400,000 Phase II contract from the National Science Foundation (NSF) under the Small Business Technology Transfer Program, and (iii) \$117,225 recognized under a two-year DoD Phase II Small Business Innovation Research (SBIR) Army Contract.

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The Company also earned \$241,875 from the sale of evaluation chemicals to potential OLED display manufacturers during the quarter ended September 30, 2002. The chemicals are used to evaluate the Company's proprietary OLED material system. In the same period in 2001, the Company earned \$132,432 in chemical sales.

Research and development costs were \$3,933,777 for the quarter ended September 30, 2002 compared to \$1,203,473 for the same period in 2001. For the quarter ended September 30, 2002, research and development expenses consisted of: (i) costs incurred of \$1,875,111 for the development and operations conducted in the Company's facility, (ii) costs incurred of \$342,030 for patent applications, prosecutions and other intellectual property rights, (iii) costs incurred of \$314,892 to the Company's Research Partners (Note 3) under the 1997 Sponsored Research Agreement and 1997 Amended License Agreement, (iv) non-cash charges of \$977,976 incurred in connection with the development agreement with PPG (Note 5), and (v) non-cash charges of \$423,768 for the amortization of the Company's acquired technology (Note 2 and Note 4). Research and development costs in the same period in 2001 consisted of: (i) payments of \$139,777 to the Company's research partners (Note 3) under the 1997 Sponsored Research Agreement, (ii) costs incurred of \$256,813 for patent applications, prosecutions, and other intellectual property rights, (iii) costs incurred of \$1,315,080 for the development and operations conducted in the Company's facility, (iv) non-cash charges of \$241,014 incurred in connection with the development agreement with PPG (Note 5), (v) non-cash credit of \$1,172,979 recorded for warrants and options previously issued to the Scientific Advisory Board members, and (vi) non-cash charges of \$423,768 for the amortization of the Company's acquired technology (Note 2 and Note 4).

Interest expense, excluding costs related to the debt conversion and debt extinguishment, was \$651,325 for the quarter ended September 30, 2002, compared to \$509,236 for the same period in 2001. The increase is primarily due to the amortization of original issuance discount and beneficial conversion feature on the convertible promissory note issued on August 22, 2001 (Note 6).

In September 2002, \$7,000,002 of the \$15,000,000 convertible promissory Notes were converted into shares of Common Stock and the remainder was repaid. At the date of conversion and repayment, the \$15,000,000 face value of the Notes exceeded the then carrying value due to unamortized OID and BCF. As a result, the Company recognized a non-cash debt conversion and extinguishment expense of \$10,011,780 upon the conversion and repayment of the Notes (Note 6). In the same period in 2001, there were no such expenses.

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

The Company had a net loss applicable to Common shareholders of \$27,819,985 (or \$1.50 per share) (restated) for the nine months ended September 30, 2002, compared to \$11,148,168 (or \$0.66 per share) for the same period in 2001. In the nine months ended September 30, 2002, 68% (\$18,828,699) of the net loss was attributed to three non-cash items, including a charge of \$13,044,467 for the amortization of discounts, conversion and repayment on convertible promissory notes (Note 6), a charge of \$3,830,753 for the issuance of Common Stock, options and warrants to purchase Common Stock to PPG in connection with a development agreement (Note 5), and a charge of \$1,953,479 related to the adjustment of the conversion price on the Series B (Note 7). In the same period in 2001, 21% (\$2,204,060) of the net loss was attributed to two non-cash items, including a charge of \$509,236 for the amortization of discounts on convertible promissory notes (Note 6), and a charge of \$1,694,824 for the issuance of Common Stock, options and warrants to purchase Common Stock to PPG in connection with a development agreement (Note 5).

The Company earned \$1,143,197 from contract research revenue for the nine months ended September 30, 2002 compared to \$891,714 for the same period in 2001. In the nine months ended September 30, 2001, contract research revenue consisted of: (i) \$652,133 recognized under a 24-month, \$2,977,471 Phase I contract received from the DARPA, (ii) \$132,000 recognized under a subcontract received from Princeton University, pursuant to an 18-month, \$700,000 contract Princeton received from DARPA, (iii) \$267,512 recognized under a two-year DoD Phase II SBIR Army Contract, and (iv) \$69,951 under an 11-month, \$69,951 Phase I contract received from the US Department of Army, (v) \$19,455 recognized under a 9-month, \$100,000 Phase I contract received by the DoE, and (vi) \$2,146 recognized under a 9-month, \$100,000 Phase I contract received by the DoE. In the same period in 2001, contract research revenue consisted of: (i) \$619,603 recognized under an 18-month, \$2,977,471 Phase I contract received from DARPA, (ii) \$105,537 recognized under a two-year, \$400,000 Phase II contract from the National Science Foundation (NSF) under the Small Business Technology Transfer Program, (iii) \$7,878 recognized under a DoD Phase I, SBIR contract which is completed at this time, (iv) \$161,651 recognized under a two-year DoD Phase II SBIR Army Contract, and (v) a \$2,955 charge against revenue for an overpayment on the final costs of a subcontract under a 3-year, \$3 million contract Princeton University received from DARPA.

The Company also earned \$419,768 from the sale of evaluation chemicals to potential OLED display manufacturers during the nine months ended September 30, 2002. The chemicals are used to evaluate the Company's proprietary OLED material system. In the same period in 2001, the Company earned \$140,730 in chemical sales.

Research and development costs were \$11,550,574 for the nine months ended September 30, 2002 compared to \$8,528,379 for the same period in 2001. For the nine months ended September 30, 2002, research and development expenses consisted of: (i) costs incurred of \$4,927,797 for the development and operations conducted in the Company's facility, (ii) costs incurred of \$876,274 for patent applications, prosecutions and other intellectual property rights, (iii) costs incurred of \$644,446 to the Company's research partners (Note 3) under the 1997 Sponsored Research Agreement and the 1997 Amended License Agreement, (iv) non-cash charges of \$3,830,753 incurred in connection with the development agreement with PPG (Note 5), and (v) non-cash charges of \$1,271,304 for the amortization of the Company's acquired technology (Note 2 and Note 4). Research and development costs in the same period in 2001 consisted of: (i) payments of \$568,955 to the Company's research partners (Note 3) under the 1997 Sponsored Research Agreement, (ii) costs incurred of \$684,065 for patent applications, prosecutions, and other intellectual property rights, (iii) costs incurred of \$3,769,474 for the development and operations conducted in the Company's facility, (iv) non-cash charges of \$1,694,824 incurred in connection with the development agreement with PPG (Note 5), (v) non-cash charge of \$539,757 recorded for warrants and options previously issued to the Scientific Advisory Board members, and (vi) non-cash charges of \$1,271,304 for the amortization of the Company's acquired technology (Note 2 and Note 4).

Interest expense, excluding costs related to the debt conversion and debt extinguishment, was \$2,874,835 for the nine months ended September 30, 2002, compared to \$509,236 for the same period in 2001. The increase is primarily due to the amortization of original issuance discount and beneficial conversion feature on the convertible promissory note issued on August 22, 2001 (Note 6).

In September 2002, \$7,000,002 of the \$15,000,000 convertible promissory Notes were converted into shares of Common Stock and the remainder was repaid. At the date of conversion and repayment, the \$15,000,000 face value of the Notes

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exceeded the then carrying value due to unamortized OID and BCF. As a result, the Company recognized a non-cash debt conversion and extinguishment expense of \$10,011,775 upon the conversion and repayment of the Notes (Note 6). In the same period in 2001, there were no such expenses.

In September 2002, the Company adjusted the conversion price for 75,000 shares of the Series B, in accordance with the conversion terms of the Series B (Note 7). The adjustment resulted in a contingent beneficial conversion feature valued at \$1,953,479, which the Company treated as a dividend for the nine months ended September 30, 2002. In the same period in 2001, the Company recorded a similar dividend in the amount of \$182,127.

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The conversion features of the Series C Convertible Preferred Stock issued on August 22, 2001 resulted in a beneficial conversion feature valued at \$689,416, which the Company treated as a dividend for the nine months ended September 30, 2001. As a result of the dividend, net loss applicable to common stockholders was \$11,148,168 (or \$0.66 per share) for the nine months ended September 30, 2001. As the Series C was converted into Common Stock on December 5, 2001, there were no such deemed dividends in the nine months ended September 30, 2002.

### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2002, the Company had cash and cash equivalents of \$17,512,267, short-term investments of \$2,784,566, compared to cash and cash equivalents of \$7,883,132, short-term investments of \$4,516,199 and restricted cash of \$15,162,414 at December 31, 2001. During the nine months ended September 30, 2002, the Company received non-refundable cash payments of \$716,667 in connection with joint development and technology evaluation agreements.

During the nine months ended September 30, 2002, cash used in operating activities was \$5,457,824 as compared to \$6,507,127 for the same period in 2001. The decrease in use of cash in operating activities was due to a decrease in accounts receivable and an increase to accounts payable, accrued expenses and deferred revenues.

In September 2002, \$7,000,002 of convertible promissory Notes were converted into 1,375,246 shares of Common Stock, with the balance of \$7,999,998 of the Notes being repaid. As a result, the Company has received \$6,180,000 of cash (after costs associated with the conversion and repayment) previously restricted in use and no longer has restricted cash as of September 30, 2002.

In August and September 2002, the Company completed registered direct offerings (the "Offerings") for 1,277,014 and 383,452 shares of Common Stock at \$5.09 and \$5.41 per share, respectively. The completion of the Offerings resulted in proceeds to the Company of \$8,064,338, net of \$510,138 in costs associated with the completion of the Offerings.

In the fourth quarter of 2001, the Company commenced construction on the expansion of its current location in Ewing, New Jersey. The expansion was completed in the first quarter of 2002. As of September 30, 2002, the Company had incurred costs of \$1,921,936 relating to the construction and purchase of equipment for the expansion.

The Company anticipates, based on management's internal forecasts and assumptions relating to its operations (including assumptions regarding working capital requirements of the Company, the progress of research and development, the availability and amount of other sources of funding available to Princeton University for research relating to the OLED technology and the timing and costs

associated with the preparation, filing and prosecution of patent applications and the enforcement of intellectual property rights), that it has sufficient cash, cash equivalents and short term investments to meet its obligations through at least the current fiscal year. Management believes that potential additional financing sources for the Company include long-term and short-term borrowings, public and private sales of the Company's equity and debt securities and receipt of cash upon the exercise of warrants. The 1997 Sponsored Research Agreement requires the Company to pay up to \$4.4 million to Princeton University from July 1998 through July 2002. In April 2002, the Company amended the 1997 Sponsored Research Agreement with Princeton providing, among other things, for an additional five-year term. The Company is obligated to pay Princeton up to \$7.5 million commencing on July 31, 2002 through July 31, 2007. From inception of the Sponsored Research Agreement with Princeton University in 1994, through September 30, 2002, \$4,771,534 of this commitment has been funded. Pursuant to its development and license agreement with PPG, the Company is to issue shares of Common Stock, on an annual basis, in consideration of the services provided by PPG. In certain circumstances, the Company may also be required to pay cash to PPG for such services. Substantial additional funds will be required in the future for the research, development and commercialization of OLED technology, obtaining and maintaining intellectual property rights, working capital and other purposes, the timing and amount of which is difficult to ascertain. There can be no assurance that additional funds will be available when needed, on commercially reasonable terms or at all.

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

The Company does not utilize financial instruments for trading purposes and holds no derivative financial instruments, which could expose the Company to significant market risk. The Company's primary market risk exposure with regard to financial instruments is to changes in interest rates, which would impact interest income earned on investments.

#### ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on an evaluation conducted within 90 days prior to the filing date of this Quarterly Report on Form 10-Q, that the Company's disclosure controls and procedures have functioned effectively so as to provide those officers the information necessary to evaluate whether:

(i) this Quarterly Report on Form 10-Q contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report on Form 10-Q, and

(ii) the financial statements, and other financial information included in this Quarterly Report on Form 10-Q, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report on Form 10-Q.

There have been no significant changes in the Company's internal controls or in other factors since the date of the Chief Executive Officer's and Chief Financial Officer's evaluation that could significantly affect these internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II. OTHER INFORMATION

ITEM 1. NONE

ITEM 2. Changes in Securities/Use of Proceeds

(a) None

(b) None

(c) None.

(d) None

ITEM 3. NONE

ITEM 4. NONE

ITEM 5. NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS:

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99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(B) REPORTS ON FORM 8-K:

1. Current Report on Form 8-K, filed with the Commission on July 30, 2002, reporting Items 4 and 7, and describing a change in the Company's independent auditors.

2. Current Report on Form 8-K, filed with the Commission on August 7, 2002, reporting Items 5 and 7, and containing as an exhibit the Company's prospectus supplement, dated August 5, 2002, relating to the sale by the Company of 1,277,014 shares of its Common Stock at \$5.09 per share.

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CERTIFICATION

I, Sherwin I. Seligsohn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Display Corporation (the "registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent function):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ Sherwin I. Seligsohn

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Sherwin I. Seligsohn



Chief Executive Officer

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CERTIFICATION

I, Sidney D. Rosenblatt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Display Corporation (the "registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent function):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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Date: March 27, 2003

/s/ Sidney D. Rosenblatt

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Sidney D. Rosenblatt  
Executive Vice President, Chief  
Financial Officer, Treasurer and  
Secretary

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIVERSAL DISPLAY CORPORATION

Date: March 27, 2003

/s/ Sidney D. Rosenblatt

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Sidney D. Rosenblatt  
(Executive Vice President, Chief  
Financial Officer, Treasurer and  
Secretary)

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