

UNIVERSAL DISPLAY CORP \PA\
Form 10-Q
August 09, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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 (I.R.S. Employer Identification No.)
incorporation or organization)

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 X No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 2, 2011, the registrant had outstanding 45,556,985 shares of common stock.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

| | | |
|----------------|--|-----------|
| <u>Item 1.</u> | <u>Financial Statements (unaudited)</u> | |
| | <u>Consolidated Balance Sheets – June 30, 2011 and December 31, 2010</u> | <u>3</u> |
| | <u>Consolidated Statements of Operations – Three months ended June 30, 2011 and 2010</u> | <u>4</u> |
| | <u>Consolidated Statements of Operations – Six months ended June 30, 2011 and 2010</u> | <u>5</u> |
| | <u>Consolidated Statements of Cash Flows – Six months ended June 30, 2011 and 2010</u> | <u>6</u> |
| | <u>Notes to Consolidated Financial Statements</u> | <u>7</u> |
| | <u>Management’s Discussion and Analysis of</u> | |
| <u>Item 2.</u> | <u>Financial Condition and Results of Operations</u> | <u>21</u> |
| | <u>Quantitative and Qualitative Disclosures About</u> | |
| <u>Item 3.</u> | <u>Market Risk</u> | <u>29</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | <u>29</u> |

PART II – OTHER INFORMATION

| | | |
|-----------------|--|-----------|
| <u>Item 1.</u> | <u>Legal Proceedings</u> | <u>29</u> |
| <u>Item 1A.</u> | <u>Risk Factors</u> | <u>33</u> |
| | <u>Unregistered Sales of Equity Securities and Use</u> | |
| <u>Item 2.</u> | <u>of Proceeds</u> | <u>33</u> |
| <u>Item 3.</u> | <u>Defaults Upon Senior Securities</u> | <u>34</u> |
| <u>Item 4.</u> | <u>Removed and Reserved</u> | <u>34</u> |
| <u>Item 5.</u> | <u>Other Information</u> | <u>34</u> |
| <u>Item 6.</u> | <u>Exhibits</u> | <u>34</u> |

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | June 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 65,240,065 | \$ 20,368,852 |
| Short-term investments | 261,158,726 | 52,794,545 |
| Accounts receivable | 6,541,232 | 7,247,873 |
| Other current assets | 2,841,934 | 1,988,239 |
| Total current assets | 335,781,957 | 82,399,509 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$18,027,557 and \$17,335,662 | 10,487,827 | 9,711,093 |
| ACQUIRED TECHNOLOGY, net of accumulated amortization of \$16,970,257 and \$16,950,718 | 420,105 | — |
| OTHER ASSETS | 323,235 | 216,529 |
| TOTAL ASSETS | \$ 347,013,124 | \$ 92,327,131 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 3,161,943 | \$ 2,155,489 |
| Accrued expenses | 5,667,855 | 6,906,289 |
| Deferred revenue | 4,816,882 | 5,323,154 |
| Stock warrant liability | 4,588,178 | 10,659,755 |
| Total current liabilities | 18,234,858 | 25,044,687 |
| DEFERRED REVENUE | 3,446,843 | 2,775,024 |
| RETIREMENT PLAN BENEFIT LIABILITY | 7,541,337 | 7,077,901 |
| Total liabilities | 29,223,038 | 34,897,612 |
| COMMITMENTS AND CONTINGENCIES (Note 11) | | |
| SHAREHOLDERS' EQUITY: | | |
| | 2,000 | 2,000 |

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)

Common Stock, par value \$0.01 per share, 100,000,000 shares authorized, 45,552,175 and 38,936,571 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively

| | | |
|---|-----------------------|----------------------|
| | 455,522 | 389,366 |
| Additional paid-in capital | 548,871,155 | 280,102,227 |
| Accumulated deficit | (225,594,271) | (217,026,115) |
| Accumulated other comprehensive loss | (5,944,320) | (6,037,959) |
| Total shareholders' equity | 317,790,086 | 57,429,519 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 347,013,124 | \$ 92,327,131 |

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 June 30, | |
|--|-----------------------------|------------------------|
| | 2011 | 2010 |
| REVENUE: | | |
| Commercial revenue | \$ 5,278,704 | \$ 1,951,892 |
| Developmental revenue | 5,973,711 | 6,494,937 |
| Total revenue | 11,252,415 | 8,446,829 |
| OPERATING EXPENSES: | | |
| Cost of chemicals sold | 142,540 | 218,417 |
| Research and development | 5,551,492 | 5,500,507 |
| Selling, general and administrative | 4,495,821 | 3,624,582 |
| Patent costs | 1,915,060 | 843,907 |
| Royalty and license expense | 218,255 | 168,560 |
| Total operating expenses | 12,323,168 | 10,355,973 |
| Operating loss | (1,070,753) | (1,909,144) |
| INTEREST INCOME | 184,877 | 61,125 |
| INTEREST EXPENSE | (8,430) | (5,648) |
| GAIN (LOSS) ON STOCK WARRANT LIABILITY | 4,496,367 | (2,582,428) |
| INCOME (LOSS) BEFORE INCOME TAX EXPENSE | 3,602,061 | (4,436,095) |
| INCOME TAX EXPENSE | (289,361) | — |
| NET INCOME (LOSS) | \$ 3,312,700 | \$ (4,436,095) |
| NET INCOME (LOSS) PER COMMON SHARE: | | |
| BASIC | \$ 0.07 | \$ (0.12) |
| DILUTED | \$ (0.03) | \$ (0.12) |
| WEIGHTED AVERAGE SHARES USED IN COMPUTING | | |
| NET INCOME (LOSS) PER COMMON SHARE: | | |
| BASIC | 45,024,373 | 37,362,176 |
| DILUTED | 45,201,175 | 37,362,176 |

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

Table of Contents

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Six Months Ended June 30, | |
|--|---------------------------|------------------------|
| | 2011 | 2010 |
| REVENUE: | | |
| Commercial revenue | \$ 10,022,779 | \$ 3,782,039 |
| Developmental revenue | 10,830,176 | 8,911,440 |
| Total revenue | 20,852,955 | 12,693,479 |
| OPERATING EXPENSES: | | |
| Cost of chemicals sold | 245,202 | 317,037 |
| Research and development | 12,106,610 | 10,329,304 |
| Selling, general and administrative | 8,367,778 | 6,266,828 |
| Patent costs | 3,528,102 | 1,625,166 |
| Royalty and license expense | 420,039 | 288,620 |
| Total operating expenses | 24,667,731 | 18,826,955 |
| Operating loss | (3,814,776) | (6,133,476) |
| INTEREST INCOME | 280,350 | 136,780 |
| INTEREST EXPENSE | (18,068) | (12,707) |
| LOSS ON STOCK WARRANT LIABILITY | (4,429,845) | (1,869,185) |
| LOSS BEFORE INCOME TAX (EXPENSE) BENEFIT | (7,982,339) | (7,878,588) |
| INCOME TAX (EXPENSE) BENEFIT | (585,817) | 464,162 |
| NET LOSS | \$ (8,568,156) | \$ (7,414,426) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | \$ (0.20) | \$ (0.20) |
| WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE | 41,977,113 | 37,196,741 |

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

Table of Contents

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Six Months Ended June 30, | |
|---|---------------------------|-----------------|
| | 2011 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (8,568,156) | \$ (7,414,426) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Amortization of deferred revenue | (1,479,453) | (3,653,330) |
| Depreciation | 733,597 | 944,798 |
| Amortization of intangibles | 19,539 | 847,536 |
| Amortization of premium and discount on investments, net | (166,491) | (80,168) |
| Stock-based employee compensation | 2,150,898 | 1,191,701 |
| Stock-based non-employee compensation | 1,934 | 43,308 |
| Non-cash expense under a materials agreement | 9,181 | 557,223 |
| Stock-based compensation to Board of Directors and Scientific Advisory Board | 718,117 | 384,665 |
| Loss on stock warrant liability | 4,429,845 | 1,869,185 |
| Retirement plan benefit expense | 763,436 | 342,081 |
| Decrease (increase) in assets: | | |
| Accounts receivable | 706,641 | (541,125) |
| Other current assets | (853,695) | (44,828) |
| Other assets | (106,706) | (43,656) |
| Increase in liabilities: | | |
| Accounts payable and accrued expenses | 1,836,456 | 1,464,055 |
| Deferred revenue | 1,645,000 | 1,375,000 |
| Net cash provided by (used in) operating activities | 1,840,143 | (2,757,981) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (1,510,331) | (144,376) |
| Purchase of intangibles | (439,644) | - |
| Purchase of short-term investments | (253,903,705) | (51,910,640) |
| Proceeds from sale of short-term investments | 45,499,654 | 38,784,983 |
| Net cash used in investing activities | (210,354,026) | (13,270,033) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from the issuance of common stock | 249,821,785 | 129,650 |
| | 7,542,784 | 6,083,944 |

| | | |
|--|---------------|---------------|
| Proceeds from the exercise of common stock options and warrants | | |
| Payment of withholding taxes related to stock-based employee compensation | (3,979,473) | (1,132,421) |
| Net cash provided by financing activities | 253,385,096 | 5,081,173 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 44,871,213 | (10,946,841) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 20,368,852 | 22,701,126 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 65,240,065 | \$ 11,754,285 |
| The following non-cash activities occurred: | | |
| Unrealized loss on available-for-sale securities | \$ 206,361 | \$ 40,141 |
| Common stock issued to Board of Directors and Scientific Advisory Board that was earned in a previous period | 299,943 | 314,181 |
| Common stock issued to employees that was accrued for in a previous period, net of shares withheld for taxes | 1,113,483 | 929,552 |
| Common stock issued for royalties that was earned in a previous period | — | 81,273 |
| Fair value of stock warrant liability reclassified to shareholders' equity upon exercise | 10,501,422 | — |

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

Table of Contents

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BACKGROUND

Universal Display Corporation (the Company) is engaged in the research, development and commercialization of organic light emitting diode (OLED) technologies and materials for use in flat panel display, solid-state lighting and other product applications. The Company's primary business strategy is to develop and license its proprietary OLED technologies to product manufacturers for use in these applications. In support of this objective, the Company also develops new OLED materials and sells those materials to product manufacturers. Through internal research and development efforts and relationships with entities such as Princeton University (Princeton), the University of Southern California (USC), the University of Michigan (Michigan), Motorola Solutions, Inc. (f/k/a 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 7).

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 June 30, 2011 and results of operations for the three and six months ended June 30, 2011 and 2010, and cash flows for the six months ended June 30, 2011 and 2010. 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, 2010. 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

The carrying value of cash equivalents, accounts receivable, other current assets and accounts payable approximates fair value in the accompanying financial statements due to the short-term nature of those instruments. See Notes 3 and 4 for a discussion of cash equivalents, short-term investments and stock warrant liability.

Cost of Chemicals Sold

Cost of chemicals sold represents costs associated with the sale of commercial chemicals. Certain reclassifications were made to the statement of operations between cost of chemicals sold and research and development expenses for the three and six months ended June 30, 2010 to reflect this current presentation.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (FASB) issued guidance which affects 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

7

Table of Contents

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 was effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted this new guidance on a prospective basis beginning January 1, 2011, and does not expect the adoption to have an impact on the Company's 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 the additional disclosure requirements of this new guidance in the first quarter of 2011 did not have an impact on the Company's results of operations, financial position, or disclosures.

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. The Company adopted this new guidance on a prospective basis beginning January 1, 2011, and does not expect the adoption to have an impact on the Company's results of operations or financial position.

In May 2011, the FASB issued amended standards that revised the application of the valuation premise of highest and best use of an asset, the application of premiums and discounts for fair value determination, as well as the required disclosures for transfers between Level 1 and Level 2 fair value measures and the highest and best use of nonfinancial assets. The update provides additional disclosures regarding Level 3 fair value measurements and clarifies certain other existing disclosure requirements. The new guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the requirements of this new guidance and has not yet determined the impact on the Company's results of operations or financial position.

In June 2011, the FASB issued amended standards for the reporting of other comprehensive income. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In either case, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Regardless of which option is chosen, the entity is required to present on the face of the financial statements any adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. The new guidance is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect this new guidance to have a material impact on its results of operations or financial position, but it will change the Company's presentation of comprehensive income (loss).

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's remaining marketable securities are classified 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 June 30, 2011 and December 31, 2010 consisted of the following:

| Investment Classification | Amortized Cost | Unrealized Gains | (Losses) | Aggregate Fair Market Value |
|---------------------------|-------------------|---------------------|--------------|--------------------------------|
| June 30, 2011 – | | | | |
| Certificates of deposit | \$ 6,568,143 | \$ 441 | \$ (5,084) | \$ 6,563,500 |
| Corporate bonds | 248,585,807 | 66,047 | (255,776) | 248,396,078 |
| U.S. government bonds | 6,197,439 | 1,709 | - | 6,199,148 |
| | \$ 261,351,389 | \$ 68,197 | \$ (260,860) | \$ 261,158,726 |

Table of Contents

| December 31, 2010 – | | | | | | | | |
|-------------------------|----|------------|----|--------|----|----------|----|------------|
| Certificates of deposit | \$ | 7,167,818 | \$ | 62 | \$ | (7,919) | \$ | 7,159,961 |
| Corporate bonds | | 30,423,518 | | 19,964 | | (642) | | 30,442,840 |
| U.S. government bonds | | 15,189,511 | | 3,040 | | (807) | | 15,191,744 |
| | \$ | 52,780,847 | \$ | 23,066 | \$ | (9,368) | \$ | 52,794,545 |

All short-term investments held at June 30, 2011 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 June 30, 2011:

| | Total carrying value as of June 30, 2011 | Fair Value Measurements, Using Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|-------------------------|--|--|---|---|
| Cash equivalents | \$ 57,169,800 | \$ 57,169,800 | \$ — | \$ — |
| Short-term investments | 261,158,726 | 261,158,726 | — | — |
| Stock warrant liability | 4,588,178 | — | — | 4,588,178 |

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

| | Total carrying value as of December 31, 2010 | Fair Value Measurements, Using Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|-------------------------|--|--|---|---|
| Cash equivalents | \$ 8,234,698 | \$ 8,234,698 | \$ — | \$ — |
| Short-term investments | 52,794,545 | 52,794,545 | — | — |
| Stock warrant liability | 10,659,755 | — | — | 10,659,755 |

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 June 30, 2011 and 2010 which has been classified in Level 3 in the fair value hierarchy:

| | 2011 | 2010 |
|--|---------------|--------------|
| | \$ 13,109,785 | \$ 3,006,922 |

| | | |
|---|--------------|--------------|
| Fair value of stock warrant liability, beginning of period | | |
| (Gain) loss for period | (4,496,367) | 2,582,428 |
| Warrants exercised | (4,025,240) | — |
| Fair value of stock warrant liability, end of period | \$ 4,588,178 | \$ 5,589,350 |

The following table is a reconciliation of the changes in fair value of the Company's stock warrant liability for the six months ended June 30, 2011 and 2010 which has been classified in Level 3 in the fair value hierarchy:

| | 2011 | 2010 |
|---|---------------|--------------|
| Fair value of stock warrant liability, beginning of period | \$ 10,659,755 | \$ 3,720,165 |
| Loss for period | 4,429,845 | 1,869,185 |
| Warrants exercised | (10,501,422) | — |
| Fair value of stock warrant liability, end of period | \$ 4,588,178 | \$ 5,589,350 |

Table of Contents

The fair value of the stock warrant liability was determined using the Black-Scholes option pricing model with the following inputs at June 30, 2011 and 2010:

| | 2011 | 2010 |
|--------------------------|--------|--------|
| Contractual life (years) | 0.1 | 1.1 |
| Expected volatility | 87.4 % | 57.3 % |
| Risk-free interest rate | 0.02 % | 0.5 % |
| 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 transfer, the 1997 Research Agreement was allowed to expire on July 31, 2007.

As a result of the transfer, the Company entered into a new Sponsored Research Agreement with USC to sponsor OLED technology research at USC and, on a subcontractor basis, Michigan. This new Research Agreement (the 2006 Research Agreement) was effective as of May 1, 2006, and had an original term of three years. The 2006 Research Agreement superseded the 1997 Research Agreement with respect to all work being performed at USC and Michigan. Payments under the 2006 Research Agreement were made to USC on a quarterly basis as actual expenses were 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 June 30, 2011, the Company incurred \$1,899,181 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 \$215,754 and \$113,240 for the three months ended June 30, 2011 and 2010, respectively, and \$415,039 and \$181,632 for the six months ended June 30, 2011 and 2010, 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.

Table of Contents

6. ACQUIRED TECHNOLOGY

In 2000, the Company entered into a license agreement with Motorola whereby Motorola granted the Company perpetual license rights to what are now 74 issued U.S. patents relating to Motorola's OLED technologies, together with foreign counterparts in various countries. These patents will start expiring in the U.S. in 2012.

The Company was required under the license agreement with Motorola to pay Motorola annual royalties on gross revenues received on account of the Company's sales of OLED products or components, or from its OLED technology licensees, whether or not these revenues related specifically to inventions claimed in the patent rights licensed from Motorola.

On March 9, 2011, the Company purchased these patents from Motorola, including all existing and future claims and causes of action for any infringement of the patents, pursuant to a Patent Purchase Agreement. The Patent Purchase Agreement effectively terminated its license agreement with Motorola, including any obligation to make royalty payments to Motorola.

The technology acquired from Motorola had an assigned value of \$439,644, which is being amortized over a period of 7.5 years. The Company accrued royalty expense in connection with the Motorola license agreement of \$52,820 and \$101,988 for the three and six months ended June 30, 2010, respectively. There was no corresponding royalty expense for the six months ended June 30, 2011.

7. EQUITY AND CASH COMPENSATION UNDER THE PPG INDUSTRIES AGREEMENTS

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

On July 29, 2005, the Company entered into an OLED Materials Supply and Service Agreement with PPG Industries (the OLED Materials Agreement). The OLED Materials Agreement superseded and replaced in their entirety the Development Agreement and Supply Agreement effective as of January 1, 2006, and extended the term of the Company's relationship with PPG Industries through December 31, 2009. The term of the OLED Materials Agreement has subsequently been extended through December 31, 2012. 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. The Company is currently in the process of negotiating a further extension of the OLED Materials Agreement.

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. 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 raw materials used for research and development. The Company records the purchases of these raw materials as a current asset until such materials are used for research and development efforts.

The Company issued 181 and 41,978 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 six months ended June 30, 2011 and 2010, respectively. For these shares, the Company recorded expense of \$9,181 and \$500,757 for the six months ended June 30, 2011 and 2010, respectively. For the portion of these shares associated with the three months ended June 30, 2011 and 2010, the Company recorded expense of \$0 and \$257,297, respectively.

The Company recorded expense of \$955,672 and \$512,815 for the three months ended June 30, 2011 and 2010, respectively, and \$2,388,527 and \$831,562 for the six months ended June 30, 2011 and 2010, respectively, in relation to the cash portion of the reimbursement of expenses and work performed by PPG Industries, excluding amounts paid for commercial chemicals.

Table of Contents

8. SHAREHOLDERS' EQUITY

| | Series A Nonconvertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|--|---|---------|--------------|-----------|----------------------------------|------------------------|---|----------------------------------|
| | Shares | Amount | Shares | Amount | | | | |
| BALANCE, JANUARY 1, 2011 | 200,000 | \$2,000 | 38,936,571 | \$389,366 | \$280,102,227 | \$(217,026,115) | \$(6,037,959) | \$57,429,519 |
| Net loss | — | — | — | — | — | (8,568,156) | — | (8,568,156) |
| Other comprehensive (loss) income: | | | | | | | | |
| Unrealized loss on available-for-sale securities | — | — | — | — | — | — | (206,361) | (206,361) |
| Amortization of prior service cost and actuarial loss for retirement plan | — | — | — | — | — | — | 300,000 | 300,000 |
| Comprehensive loss | | | | | | | | (8,474,517) |
| Exercise of common stock options and warrants, net of tendered shares | — | — | 720,496 | 7,205 | 18,037,001 | — | — | 18,044,206 |
| Stock-based employee compensation, net of shares withheld for taxes (A) | — | — | 102,811 | 1,028 | (61,110) | — | — | (60,082) |
| Stock-based non-employee compensation | — | — | 55 | 1 | 1,933 | — | — | 1,934 |
| Issuance of common stock to Board of Directors and Scientific Advisory Board (B) | — | — | 36,536 | 365 | 1,017,695 | — | — | 1,018,060 |
| Issuance of common stock in connection with materials | — | — | 181 | 2 | 9,179 | — | — | 9,181 |

| | | | | | | | | |
|---|----------------|----------------|-------------------|------------------|----------------------|------------------------|----------------------|----------------------|
| agreements | | | | | | | | |
| Issuance of common stock under an Employee Stock Purchase Plan | — | — | 5,525 | 55 | 154,424 | — | — | 154,479 |
| Issuance of common stock through a public offering, net of expenses of \$14,832,694 (C) | — | — | 5,750,000 | 57,500 | 249,609,806 | — | — | 249,667,306 |
| BALANCE, JUNE 30, 2011 | 200,000 | \$2,000 | 45,552,175 | \$455,522 | \$548,871,155 | \$(225,594,271) | \$(5,944,320) | \$317,790,086 |

- (A) Includes \$1,768,493 (50,848 shares) that was accrued for in a previous period and charged to expense when earned, but issued in 2011, less shares withheld for taxes in the amount of \$655,010 (18,792 shares).
- (B) Includes \$299,943 (8,624 shares) that was earned in a previous period and charged to expense when earned, but issued in 2011.
- (C) In March 2011, the Company sold 5,750,000 shares of its Common Stock at \$46.00 per share in a registered underwritten public offering. The offering resulted in proceeds to the Company of \$249,667,306, which was net of \$14,832,694 in underwriting discounts and commissions and other costs associated with completion of the offering.

9. 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 option pricing 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 2003, the Company amended and restated its Stock Option Plan (now called the Equity Compensation Plan). Through June 30, 2011, the Company's shareholders have approved increases in the number of shares reserved for issuance under the Equity Compensation Plan to 8,000,000, and have extended the term of the plan through 2015.

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

Table of Contents

grant date. Options to purchase shares of the Company's common stock are 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.

During the six months ended June 30, 2011, the Company did not grant any stock options to employees. The Company recorded as compensation expense \$0 and \$8,265 for the three months ended June 30, 2011 and 2010, respectively, and \$0 and \$30,497 for the six months ended June 30, 2011 and 2010, respectively, in relation to the vesting of all previously granted employee stock options.

During the six months ended June 30, 2010, the Company granted to a non-employee stock options to purchase a total of 10,000 shares of the Company's common stock. These stock options vested immediately and had exercise prices ranging from \$8.56 to \$9.44. The fair value of the options granted was \$38,366, which was charged to research and development expense for the six months ended June 30, 2010. No such grants were made for the six months ended June 30, 2011.

During the six months ended June 30, 2011, the Company granted a total of 92,822 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 \$3,228,349 on the date of grant, and will vest over one to six years from the date of grant, provided that the grantee is still an employee of the Company on the applicable vesting date.

For the six months ended June 30, 2011 and 2010, 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 \$744,370 and \$571,283, and to research and development expense in amounts of \$305,709 and \$114,240, for the three months ended June 30, 2011 and 2010, respectively, and to general and administrative expense in amounts of \$1,472,031 and \$867,098, and to research and development expense in amounts of \$575,395 and \$232,389, for the six months ended June 30, 2011 and 2010, respectively.

During the six months ended June 30, 2011, the Company also granted to employees 1,489 shares of common stock, which shares were issued and fully vested as of 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 \$33,297 and \$13,234 for the three months ended June 30, 2011 and 2010, respectively, and \$54,797 and \$21,734 for the six months ended June 30, 2011 and 2010, respectively.

In connection with all common stock issued to employees for the six months ended June 30, 2011, 100,649 shares of common stock with a fair value of \$3,979,473 were withheld in satisfaction of tax withholding obligations.

During the six months ended June 30, 2011, the Company granted 24,000 cash-settled stock appreciation rights (SARs) to certain executive officers. The SARs represent the right to receive, for each SAR, a cash payment equal to the amount, if any, by which the fair market value of a share of the common stock of the Company on the vesting date exceeds the base price of the SAR award. The base price of each SAR award is \$34.78 per share. The SARs vest on the first anniversary of the date of grant, provided that the grantee is still an employee of the Company on the applicable vesting date. In relation to the vesting of the cash-settled SARs, the Company recorded a credit to general and administrative expense in the amount of \$11,264, and to research and development expense in the amount of \$27,356, for the three months ended June 30, 2011 and recorded an expense to general and administrative expense in the amount of \$24,396, and to research and development expense in the amount of \$59,248, for the six months ended June 30, 2011. No such grants were made in 2010.

For the six months ended June 30, 2011, the Company issued a total 10,000 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 members of its Board of Directors, the Company recorded charges to general and administrative expense of \$338,095 and \$67,630

for the three months ended June 30, 2011 and 2010, respectively, and \$394,000 and \$135,261 for the six months ended June 30, 2011 and 2010, respectively.

For the six months ended June 30, 2011, the Company granted a total of 6,900 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 a credit to research and development expense of \$149,458 for the three months ended June 30, 2011 and recorded charges to research and development expense of \$167,332 for the three months ended June 30, 2010, and charges of \$324,117 and \$249,404 for the six months ended June 30, 2011 and 2010, respectively, in relation to the vesting of these restricted stock awards.

Table of Contents

Employee Stock Purchase Plan

On April 7, 2009, the Board of Directors of the Company adopted an Employee Stock Purchase Plan (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 six months ended June 30, 2011, the Company issued 5,525 shares of its common stock under the ESPP, resulting in proceeds of \$154,479. In relation to the ESPP, the Company recorded \$7,644 and \$8,129 to general and administrative expense, and \$20,845 and \$14,389 to research and development expense, for the three months ended June 30, 2011 and 2010, respectively, and \$13,645 and \$14,104 to general and administrative expense, and \$35,030 and \$25,879 to research and development expense, for the six months ended June 30, 2011 and 2010, respectively. The expense recorded equals the amount of the discount and the value of the look-back feature for the shares that were issued under the ESPP.

10. 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 June 30, 2011, there were six participants in the SERP. The SERP benefit is based on a percentage of the participant's annual base salary and the number of years of service.

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.

The components of net periodic pension cost were as follows for the three months ended June 30,

| | 2011 | 2010 |
|--|------------|------------|
| Service cost | \$ 135,459 | \$ 110,612 |
| Interest cost | 96,259 | 85,347 |
| Amortization of prior service cost | 146,122 | 146,122 |
| Amortization of actuarial | 3,878 | - |

| | | |
|---------------------------------|------------|------------|
| loss | | |
| Total net periodic benefit cost | \$ 381,718 | \$ 342,081 |

The components of net periodic pension cost were as follows for the six months ended June 30,

| | 2011 | 2010 |
|------------------------------------|------------|------------|
| Service cost | \$ 270,918 | \$ 110,612 |
| Interest cost | 192,518 | 85,347 |
| Amortization of prior service cost | 292,244 | 146,122 |
| Amortization of actuarial loss | 7,756 | - |
| Total net periodic benefit cost | \$ 763,436 | \$ 342,081 |

Table of Contents

11. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

Opposition to European Patent No. 0946958

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

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

CDT filed an appeal to the EPO decision on January 25, 2010. CDT timely filed its grounds for the appeal with the EPO on or about April 1, 2010. The EPO set August 12, 2010 as the due date for filing the Company's reply to this appeal. The Company's reply was timely filed.

At this time, based on its current knowledge, Company management believes that the EPO decision will be upheld on appeal. However, Company management cannot make any assurances of this result.

Opposition to European Patent No. 1449238

On March 8, 2007, Sumation Company Limited (Sumation), a joint venture between Sumitomo and CDT, filed a first Notice of Opposition to European Patent No. 1449238 (EP '238 patent). The EP '238 patent, which was issued on November 2, 2006, is a European counterpart patent, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011. These patents and this patent application relate to the Company's UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

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

The EPO set a January 6, 2008 due date for the Company to file its response to the opposition. The Company requested a two-month extension to file this response, which the Company subsequently filed in a timely manner. The other parties in the opposition have not filed any additional documents to which the Company might respond.

The EPO issued a Summons on July 8, 2011 setting the date of the Oral Hearing for November 3, 2011. At this time, Company management cannot make any prediction as to the probable outcome of the opposition. However, based on the Company's current knowledge, and the issues raised by the EPO in its non-binding preliminary opinion that accompanied the Summons for the Oral Hearing, Company management believes there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Table of Contents

Invalidation Trial in Japan for Japan Patent No. 3992929

On April 19, 2010, the Company received a copy of a Notice of Invalidation Trial from the Japanese Patent Office (the JPO) for the Company's Japan Patent No. 3992929 (the JP '929 patent), which was issued on August 3, 2007. The request for the Invalidation Trial was filed by Semiconductor Energy Laboratory Co., Ltd. (SEL), of Kanagawa, Japan. The JP '929 patent is a Japanese counterpart patent, in part, to the above-noted EP '238 patent and to the above-noted family of U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011. Under the Company's license agreement with Princeton, the Company is required to pay all legal costs and fees associated with this proceeding.

On August 24, 2010, the JPO issued a Notice for an Oral Hearing in this matter, which was held on November 16, 2010. On February 28, 2011, the Company learned that the JPO had issued a decision recognizing the Company's invention and upholding the validity of most of the claims, but finding the broadest claims in the patent invalid. Company management believes that the JPO's decision invalidating these claims was erroneous, and the Company filed an appeal to the Japanese IP High Court on June 22, 2011. The Company timely filed its appeal brief that was due August 5, 2011.

At this time, based on the Company's current knowledge, Company management believes that the JPO decision invalidating certain claims in the Company's JP '929 patent should be overturned on appeal as to all or a significant portion of the claims. However, Company management cannot make any assurances of this result.

Opposition to European Patent No. 1394870

On about April 20, 2010, five European companies filed Notices of Opposition to European Patent No. 1394870 (the EP '870 patent). The EP '870 patent, which was issued on July 22, 2009, is a European counterpart patent, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542; 7,563,519; and 7,901,795; and to pending U.S. patent application 13/035051, filed on February 25, 2011. These patents and this patent application relate to the Company's UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding. The five companies are Merck Patent GmbH; BASF Schweitz AG of Basel, Switzerland; Osram GmbH of Munich, Germany; Siemens Aktiengesellschaft of Munich, Germany; and Koninklijke Philips Electronics N.V., of Eindhoven, The Netherlands.

The EPO combined the oppositions into a single opposition proceeding and set October 4, 2010 as the due date for the Company to file its response, subject to extension. The Company requested a two-month extension to file this response, and the Company subsequently filed its response in a timely manner. The Company is still waiting for the EPO to provide notice of the date of the Oral Hearing. The Company is also waiting to see whether any of the other parties in the opposition file additional documents, to which the Company might respond.

At this time, Company management cannot make any prediction as to the probable outcome of the oppositions. However, based on the Company's current knowledge, Company management believes there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Invalidation Trials in Japan for Japan Patent Nos. 4357781 and 4358168

On May 24, 2010, the Company received copies of two additional Notices of Invalidation Trials against Japan Patent Nos. 4357781 (the JP '781 patent) and 4358168 (the JP '168 patent), which were both issued on August 14, 2009. The requests for these two additional Invalidation Trials were also filed by SEL. The JP '781 and '168 patents are also Japanese counterpart patents, in part, to the above-noted family of U.S. patents 6,830,828; 6,902,830; 7,001,536;

7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011. Under the Company's license agreement with Princeton, the Company is also required to pay all legal costs and fees associated with these two proceedings.

The JPO set a due date of August 18, 2010 for the Company to file the Company's response to the evidence and arguments submitted with the requests for the Invalidation Trials. The Company requested and the JPO granted a 30-day extension for the Company to file its response, which was timely filed.

Additional written statements were filed in January 2011 in response to a request by the JPO, addressing points that were expected to be raised by the JPO at the Oral Hearing that was held on February 1, 2011. Another written statement was submitted in February 2011 to address additional points raised at the Oral Hearing.

Table of Contents

On March 31, 2011, the Company learned that the JPO had issued decisions finding all claims in the JP '781 and JP '168 patents invalid. Company management believes that the JPO's decisions invalidating these claims were erroneous. The Company timely filed appeals for each case on July 26, 2011.

At this time, based on the Company's current knowledge, Company management believes that the JPO decisions invalidating all the claims in the Company's JP '781 and JP '168 patents should be overturned on appeal as to all or a significant portion of the claims. However, Company management cannot make any assurances of this result.

Interference No. 105,771 involving Claims 48-52 of US Patent No. 6,902,830

Patent Interference No. 105,771 was declared by the United States Patent and Trademark Office (the USPTO) on November 17, 2010 between The University of Southern California and The Trustees of Princeton University (the Universities), Junior Party, and Fujifilm Holding Corporation (Fuji), Senior Party. The dispute is between the Universities' U.S. Patent No 6,902,830 (the '830 patent), claims 48-52, and Fuji's Patent Application No. 11/802,492, claims 1-5. The '830 patent relates to the Company's UniversalPHOLED phosphorescent OLED technology. It is exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

The USPTO declares an interference when two or more parties claim the same patentable invention. The objective of an interference is to contest which party, if any, has both a right to participate in the proceeding and a right to the claimed invention and, if more than one party does, then to contest which party has the earliest priority date for the claimed invention.

At a telephone hearing on January 28, 2011, the Universities were authorized to file seven motions. At a telephone conference on March 31, 2011, the USPTO granted Fuji's request for an extension of the date for filing these motions due to the recent difficulties in Japan. The USPTO established an extended filing date of June 3, 2011. The USPTO further extended the filing date until July 1, 2011, on which date the motions were filed. The USPTO has now set August 12, 2011 as the due date for filing responsive motions.

At this time, based on the Company's current knowledge, Company management believes there is a substantial likelihood that the Company's claims 48-52 of the '830 patent, or a significant portion thereof, will prevail. However, Company management cannot make any assurances of this result.

Invalidation Trial in Korea for Patent No. KR-0998059

On March 10, 2011, the Company received informal notice from the Company's Korean patent counsel of a Request for an Invalidation Trial from the Korean Intellectual Property Office (KIPO) for the Company's Korean Patent No. 10-0998059 (the KR '059 patent), which was issued on November 26, 2010. The Request was filed by a certain individual, but the Company still does not know which company, if any, was ultimately responsible for filing this Request. The Company's Korean patent counsel received the Appeal Brief from KIPO on April 21, 2011, at which time KIPO set a date of May 18, 2011 (extendable to June 20, 2011) for the Company to file its response. A response to the Request was filed on June 20, 2011. The KR '059 patent is a Korean counterpart patent to the OVJP, Organic Vapor Jet Printing, family of U.S. patents originating from US 7,431,968.

At this time, Company management cannot make any prediction as to the probable outcome of this Invalidation Trial. However, based on the Company's current knowledge, Company management believes there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Invalidation Trials in Korea for Patent Nos. KR-558632 and KR-963857

On May 11 and May 31, 2011, respectively, the Company learned that further Requests for Invalidation Trials were filed in Korea, on May 3 and May 26, 2011, respectively, for the Company's Korean Patent Nos. KR-558632 (the KR '632 patent), which issued on March 2, 2006, and KR-963857 (the KR '857 patent), which issued on June 8, 2010. The Requests were filed by Duk San Hi-metal, Ltd. (Duk San) of Korea. The KR '632 and KR '857 patents are both Korean counterpart patents, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542 and 7,563,519; and to pending U.S. patent application 12/489,045, filed on June 22, 2009; to the EP '870 patent, which is subject to one of the above-noted European Oppositions; and to the JP '024 patent, which is subject to the below-noted Japanese Invalidation Trial. These patents and the pending U.S. patent application relate to the Company's UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

Table of Contents

Formal, substantially non-substantive responses were due in Korea on June 27, 2011 and July 8, 2011, respectively, but these due dates have been extended for two months, until August 27, 2011 and September 8, 2011, respectively.

At this time, Company management cannot make any prediction as to the probable outcome of these Korean Invalidation Trials. However, based on the Company's current knowledge, Company management believes there is a substantial likelihood that the patents being challenged will be declared valid, and that all or a significant portion of their claims will be upheld.

Invalidation Trials in Korea for Patent Nos. KR-744199 and KR-913568

On May 10 and May 31, 2011, respectively, the Company learned that further Requests for Invalidation Trials were filed in Korea, on May 3 and May 26, 2011, respectively, for the Company's Korean Patent Nos. KR-744199 (the KR '199 patent), which issued on July 24, 2007, and KR-913568 (the KR '568 patent), which issued on August 17, 2009. The Requests were also filed by Duk San. The KR '199 and KR '568 patents are both Korean counterpart patents, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011; to the EP '238 patent, which is subject to one of the above-noted European Oppositions; and to the JP '929 patent, which is subject to one of the above-noted Japanese Invalidation Trials. These patents and this patent application relate to the Company's UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

Formal, substantially non-substantive responses were due in Korea on July 1, 2011 and June 23, 2011, respectively, but these due dates have been extended for two months, until September 1, 2011 and August 23, 2011, respectively.

At this time, Company management cannot make any prediction as to the probable outcome of these Korean Invalidation Trials. However, based on the Company's current knowledge, Company management believes there is a substantial likelihood that the patents being challenged will be declared valid, and that all or a significant portion of their claims will be upheld.

Invalidation Trials in Japan for Japan Patent No. 4511024

On June 16, 2011, the Company learned that a further Request for an Invalidation Trial was filed in Japan for the Company's Japanese Patent No. JP-4511024 (the JP '024 patent), which issued on May 14, 2010. The Request was filed by SEL, the same opponent as in the above-noted Japanese Invalidation Trial for the JP '929 patent. The JP '024 patent is a counterpart patent, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542; 7,563,519; and 7,901,795; and to pending U.S. patent application 13/035051, filed on February 25, 2011; to the EP '870 patent, which is subject to one of the above-noted European Oppositions; and to the KR '632 and KR '857 patents, which are subject to one of the above noted Korean Invalidation Trials. These patents and the pending U.S. patent application relate to the Company's UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

At this time, Company management cannot make any prediction as to the probable outcome of this Japanese Invalidation Trial. However, based on the Company's current knowledge, Company management believes there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Opposition to European Patent No. 1252803

On July 12 and 13, 2011, Oppositions were filed to European Patent No. 1252803 (the EP '803 patent). These Oppositions were filed by Sumitomo, Merck Patent GmbH and BASF SE, of Ludwigshaven, Germany. The EP '803 patent, which was issued on October 13, 2010, is a European counterpart patent, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011. These patents and this patent application relate to the Company's UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

It is expected the EPO will combine all three Oppositions into a single opposition proceeding. The Opposition documents are currently under review by the Company.

Table of Contents

Invalidation Trials in Korea for Patent Nos. KR-840,637 and KR-937,470

On August 8, 2011, the Company received information indicating that further Requests for Invalidation Trials were filed against Korean Patent Nos. KR-840,637 (the KR '637 patent) and KR-937,470 (the KR '470 patent), which issued on June 17, 2008 and January 11, 2010, respectively. The Requests were also filed by Duk San. The KR '637 and KR '470 patents are both Korean counterpart patents, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011; to the EP '803 patent, which is subject to one of the above-noted European Oppositions; and to the JP '781 and JP '168 patents, which are subject to the above-noted Japanese Invalidation Trials. These patents and this patent application relate to the Company's UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding.

The Requests have not yet been served to the Company's Korean counsel. Accordingly, Company management cannot make any prediction as to the probable outcome of these Korean Invalidation Trials at this time.

12. CONCENTRATION OF RISK

Contract research revenue, which is included in developmental revenue in the accompanying statement of operations, of \$1,366,421 and \$1,241,637 for the three months ended June 30, 2011 and 2010, respectively, and \$3,291,044 and \$2,373,539 for the six months ended June 30, 2011 and 2010, respectively, has been derived from contracts with United States government agencies. Revenues derived from contracts with government agencies represented 12% and 15% of consolidated revenue for the three months ended June 30, 2011 and 2010, respectively, and 16% and 19% of consolidated revenue for the six months ended June 30, 2011 and 2010, respectively.

Revenues for the six months ended June 30, 2011 and 2010, and accounts receivable as of June 30, 2011 from our largest non-government customers, were as follows:

| Customer | % of Total Revenue | | Accounts Receivable June 30, 2011 |
|----------|--------------------|------|-----------------------------------|
| | 2011 | 2010 | |
| A | 46 % | 25 % | \$ 2,980,353 |
| B | 16 % | 21 % | 1,324,725 |

Revenues for the three months ended June 30, 2011 and 2010, from the same non-government customers, were as follows:

| Customer | % of Total Revenue | |
|----------|--------------------|------|
| | 2011 | 2010 |
| A | 47 % | 21 % |
| B | 13 % | 23 % |

The Company's relationships with customers A and B are under agreements that are presently scheduled to expire in less than twelve months.

Revenues from outside of North America represented 87% and 84% of the consolidated revenue for the three months ended June 30, 2011 and 2010, respectively. Revenues by geographic area are as follows:

| Country | 2011 | 2010 |
|-----------------------|---------------|--------------|
| United States | \$ 1,444,936 | \$ 1,319,137 |
| South Korea | 6,921,009 | 3,828,895 |
| Japan | 2,595,327 | 2,859,886 |
| Taiwan | 250,687 | 426,147 |
| Other | 40,456 | 12,764 |
| All foreign locations | 9,807,479 | 7,127,692 |
| Total revenue | \$ 11,252,415 | \$ 8,446,829 |

Table of Contents

Revenues from outside of North America represented 83% and 80% of the consolidated revenue for the six months ended June 30, 2011 and 2010, respectively. Revenues by geographic area are as follows:

| Country | 2011 | 2010 |
|-----------------------|---------------|---------------|
| United States | \$ 3,447,059 | \$ 2,570,188 |
| South Korea | 13,075,059 | 6,022,445 |
| Japan | 3,710,624 | 3,509,337 |
| Taiwan | 537,710 | 574,097 |
| Other | 82,503 | 17,412 |
| All foreign locations | 17,405,896 | 10,123,291 |
| Total revenue | \$ 20,852,955 | \$ 12,693,479 |

The Company attributes revenue to different geographic areas on the basis of the location of the customer.

Long-lived tangible assets at international locations are not significant for each of the periods presented.

All chemical materials were purchased from one supplier. See Note 7.

13. INCOME TAXES

The Company filed for and was granted a five-year exemption from withholding tax on royalty payments received from Samsung Mobile Display Co., Ltd. (Samsung SMD) under its patent license agreement as part of a tax incentive program in Korea. The exemption was granted in May 2005 and remained in effect until May 2010. Since then, Samsung SMD has been required to withhold tax upon payment of royalties to the Company. In 2011 and 2010, the withholding tax rate for royalty payments made by Samsung SMD was 16.5%. For the three and six months ended June 30, 2011, foreign income taxes of \$289,361 and \$585,817, respectively, were withheld in connection with royalty payments. No such taxes were withheld during the six months ended June 30, 2010.

During the six months ended June 30, 2010, the Company sold approximately \$3.8 million of its state-related income tax net operating losses and \$194,088 of its research and development tax credits under the New Jersey Technology Tax Certificate Transfer Program. The Company received proceeds of \$464,162 from these sales and recorded these proceeds as an income tax benefit. No corresponding sales of state-related income tax net operating losses or research and development tax credits occurred during the six months ended June 30, 2011.

14. NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing the net income (loss) by the weighted-average number of shares of common stock outstanding for the period. Diluted net income (loss) per common share reflects the potential dilution from the exercise or conversion of securities into common stock, the effect of unvested restricted stock awards and restricted stock units, and the impact of shares to be issued under the ESPP.

The following table is a reconciliation of net income (loss) and the shares used in calculating basic and diluted net income (loss) per common share for the three months ended June 30, 2011 and 2010:

| | 2011 | 2010 |
|---------------------------|--------------|-----------------|
| Numerator: | | |
| Net income (loss) - Basic | \$ 3,312,700 | \$ (4,436,095) |
| Effect of warrants | (4,496,367) | — |

| | | |
|-------------------------------------|-----------------|-----------------|
| Net loss - Diluted | \$ (1,183,667) | \$ (4,436,095) |
| Denominator: | | |
| Weighted average common shares | | |
| outstanding – Basic | 45,024,373 | 37,362,176 |
| Effect of warrants | 176,802 | — |
| Weighted average common shares | | |
| outstanding – Diluted | 45,201,175 | 37,362,176 |
| Net income (loss) per common share: | | |
| Basic | \$ 0.07 | \$ (0.12) |
| Diluted | \$ (0.03) | \$ (0.12) |

Table of Contents

For the three months ended June 30, 2011, the effects of the exercise of the combined outstanding stock options and unvested restricted stock awards and restricted stock units of 2,088,014, 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.

For the three months ended June 30, 2010, the effects of the exercise of the combined outstanding stock options and warrants and unvested restricted stock awards and restricted stock units of 3,894,181, 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.

The following table is a reconciliation of net loss and the shares used in calculating basic and diluted net loss per common share for the six months ended June 30, 2011 and 2010:

| | 2011 | 2010 |
|--|-----------------|-----------------|
| Numerator: | | |
| Net loss | \$ (8,568,156) | \$ (7,414,426) |
| Denominator: | | |
| Weighted average common shares outstanding – Basic | 41,977,113 | 37,196,741 |
| Effect of dilutive shares | — | — |
| Weighted average common shares outstanding – Diluted | 41,977,113 | 37,196,741 |
| Net loss per share: | | |
| Basic and diluted | \$ (0.20) | \$ (0.20) |

For the six months ended June 30, 2011 and 2010, the effects of the exercise of the combined outstanding stock options and warrants and unvested restricted stock awards and restricted stock units of 2,302,760 and 3,894,181, 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.

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

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This discussion and analysis contains some “forward-looking statements.” Forward-looking statements concern our possible or assumed future results of operations, including descriptions of our business strategies and customer relationships. These statements often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “will,” “may” or similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances.

As you read and consider this discussion and analysis, you should not place undue reliance on any forward-looking statements. You should understand that these statements involve substantial risk and uncertainty and are not

guarantees of future performance or results. They depend on many factors that are discussed further in the section entitled (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2010, as supplemented by any disclosures in Item 1A of Part II of our Quarterly Report for the quarter ended March 31, 2011, and by any disclosures in Item 1A of Part II below. Changes or developments in any of these areas could affect our financial results or results of operations, and could cause actual results to differ materially from those contemplated in the forward-looking statements.

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

OVERVIEW

We are a leader in the research, development and commercialization of organic light emitting diode, or OLED, technologies for use in flat panel display and solid-state lighting applications. Since 1994, we have been exclusively engaged, and expect to continue to be exclusively engaged, in funding and performing research and development activities relating to OLED

Table of Contents

technologies and materials, and in attempting to commercialize these technologies and materials. Our revenues are generated through contract research, sales of development and commercial chemicals, technology development and evaluation agreements and license fees and royalties. Over time, we anticipate that revenues from licensing our intellectual property will become a more significant part of our revenue stream.

While we have made significant progress over the past few years developing and commercializing our PHOLED™ and other OLED technologies and materials, we have incurred significant losses and will likely continue to do so until our OLED technologies and materials become more widely adopted by product manufacturers. We have incurred significant losses since our inception, resulting in an accumulated deficit of \$225,594,271 as of June 30, 2011.

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

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

RESULTS OF OPERATIONS

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

We had an operating loss of \$1,070,753 for the three months ended June 30, 2011, compared to an operating loss of \$1,909,144 for the three months ended June 30, 2010. The decrease in the operating loss was due to the following:

- an increase in revenue of \$2,805,586; offset by
- an increase in operating expenses of \$1,967,195.

We had net income of \$3,312,700 (or \$0.07 earnings per basic share and \$0.03 loss per diluted share) for the three months ended June 30, 2011, compared to a net loss of \$4,436,095 (or \$0.12 loss per basic and diluted share) for the three months ended June 30, 2010.

The increase in net income was due mainly to a gain on stock warrant liability of \$4,496,367 for the three months ended June 30, 2011, compared to loss on stock warrant liability of \$2,582,428 for the same period in 2010.

Our revenues were \$11,252,415 for the three months ended June 30, 2011, compared to \$8,446,829 for the three months ended June 30, 2010.

Commercial revenue increased to \$5,278,704 for the three months ended June 30, 2011, compared to \$1,951,892 for the three months ended June 30, 2010. Commercial revenue relates to the incorporation of our OLED technologies and materials into our customers' commercial products, and includes commercial chemical revenue, royalty and license revenues, and commercialization assistance revenue. The increase in commercial revenue was primarily due

to the following:

- an increase of \$1,560,960 in commercial chemical revenue;
- an increase of \$1,162,162 in royalty revenue, which mainly represented royalties received under our patent license agreement with Samsung Mobile Display Co., Ltd. (Samsung SMD); and
- an increase of \$583,986 in license fee revenue.

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

22

Table of Contents

In July 2010, we entered into an amendment to our patent license agreement with Samsung SMD. The amendment extended the term of this agreement for three months, and has subsequently been extended at three month intervals through September 30, 2011. As of the date of this filing, we are continuing to negotiate with Samsung SMD on the terms of a new business arrangement.

Developmental revenue decreased to \$5,973,711 for the three months ended June 30, 2011, compared to \$6,494,937 for the three months ended June 30, 2010. Developmental revenue relates to OLED technology and material development and evaluation activities for which we are paid, and includes contract research revenue, development chemical revenue and technology development revenue. The decrease in developmental revenue was due to:

- a decrease of \$2,026,347 in technology development revenue, due to the recognition of revenue during the three months ended June 30, 2010 of non-refundable payments of \$2,100,000 that were received from a customer through the fourth quarter of 2006; offset by
- an increase of \$1,380,337 in development chemical revenue, mainly due to increased purchases of development chemicals by customers that are preparing for commercial production; and
- an increase in contract revenue of \$124,784.

The \$2,100,000 received from a customer referenced above was for technical assistance previously provided under an agreement to conduct OLED development, evaluation and sampling activities. These payments were made between the years 2001 and 2006, and the agreement itself expired at the end of 2006. We had previously classified these payments as deferred revenue because they were creditable against the license fee under a commercial license agreement in the event we entered into one with the customer. In May 2010, based on information received from the customer regarding its future OLED plans, we determined that the likelihood of us entering into a commercial license agreement was remote. As a result of this determination, we recorded the \$2,100,000 payment as technology development revenue in the second quarter of 2010. No similar revenue was recognized during the three months ended June 30, 2011.

Cost of chemicals sold decreased to \$142,540 for the three months ended June 30, 2011, compared to \$218,417 for the three months ended June 30, 2010. Cost of chemicals sold includes the cost of producing materials that have been classified as commercial and shipping costs for such materials, but excludes the cost of producing certain commercial materials which costs have already been included in research and development expense. Cost of chemicals sold does not include costs associated with producing materials that have not yet been classified as commercial, which costs are included in research and development expenses. Depending on the timing and stage of materials being classified as commercial, we expect the cost of chemicals for these materials to fluctuate from quarter to quarter. As a result of the aforementioned, cost of chemicals sold decreased for the three months ended June 30, 2011 compared to the same period 2010, although quantities sold increased.

We incurred research and development expenses of \$5,551,492 for the three months ended June 30, 2011, compared to \$5,500,507 for the three months ended June 30, 2010. Although total expenses remained consistent over the corresponding periods, the following significant changes occurred:

- employee costs increased by \$414,501, due primarily to new employees, increased salaries and stock compensation for certain executive officers; and
- amortization costs decreased by \$409,501, due to certain acquired technology being fully amortized as of December 31, 2010

Selling, general and administrative expenses were \$4,495,821 for the three months ended June 30, 2011, compared to \$3,624,582 for the three months ended June 30, 2010. The overall increase in these costs was driven in part to increased commercial activities and non-cash expenses related to stock compensation and in part by costs incurred to establish new subsidiaries in Hong Kong, Korea and Japan. Specifically, we incurred increased costs in the following areas:

- increased costs of \$270,464 related to stock compensation for members of our Board of Directors; and
- increased employee costs of \$188,605, due primarily to increased salaries and stock compensation for certain executive officers;
- costs of \$127,133 resulting from the incorporation and commencement of operations of certain of our foreign subsidiaries.

Table of Contents

Patent costs increased to \$1,915,060 for the three months ended June 30, 2011, compared to \$843,907 for the three months ended June 30, 2010. The increase was mainly due to increased costs associated with our aggressive defense of certain ongoing and new patent challenges to our issued patents, as well as the timing of prosecution and maintenance costs associated with a number of patents and patent applications.

Interest income increased to \$184,877 for the three months ended June 30, 2011, compared to \$61,125 for the three months ended June 30, 2010. The increase was mainly attributable to interest earned on higher average cash and investment balances as a result of proceeds received from the completion of our public offering in March 2011.

At June 30, 2011, we had outstanding warrants to purchase 214,746 shares of common stock, which warrants contain a “down-round” provision requiring liability classification. The change in fair value of these warrants during the period resulted in a \$4,496,367 non-cash gain on our statement of operations for the three months ended June 30, 2011, compared to a \$2,582,428 non-cash loss for the three months ended June 30, 2010. We will continue to report the warrants as a liability, with changes in fair value recorded in the statement of operations, until such time as these warrants are either exercised or expire in August 2011.

For the three months ended June 30, 2011, we incurred an income tax expense of \$289,361. No corresponding expense was incurred for the three months ended June 30, 2010. We filed for and were granted a five-year exemption from withholding tax on royalty payments received from Samsung SMD under our patent license agreement as part of a tax incentive program in Korea. The exemption was granted in May 2005 and remained in effect until May 2010. Since then, Samsung SMD has been required to withhold tax upon payment of royalties to us. In 2011 and 2010, the withholding tax rate for royalty payments made by Samsung SMD was 16.5%. For the three months ended June 30, 2011, foreign income taxes of \$289,361 were withheld in connection with royalty payments. We anticipate the amount of withholding taxes to increase as associated payments received from Samsung SMD increase in the future.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

We had an operating loss of \$3,814,776 for the six months ended June 30, 2011, compared to an operating loss of \$6,133,476 for the six months ended June 30, 2010. The decrease in the operating loss was due to the following:

- an increase in revenue of \$8,159,476; offset by
- an increase in operating expenses of \$5,840,776.

We had a net loss of \$8,568,156 (or \$0.20 per basic and diluted share) for the six months ended June 30, 2011, compared to a net loss of \$7,414,426 (or \$0.20 per basic and diluted share) for the six months ended June 30, 2010. The increase in net loss was mainly due to an increase in loss on stock warrant liability of \$2,560,660, and an increase in income tax expense of \$1,049,979, offset by a decrease in operating loss.

Our revenues were \$20,852,955 for the six months ended June 30, 2011, compared to \$12,693,479 for the six months ended June 30, 2010.

Commercial revenue increased to \$10,022,779 for the six months ended June 30, 2011, compared to \$3,782,039 for the six months ended June 30, 2010. Commercial revenue relates to the incorporation of our OLED technologies and materials into our customers’ commercial products, and includes commercial chemical revenue, royalty and license revenues, and commercialization assistance revenue. The increase in commercial revenue was primarily due to the following:

- an increase of \$2,697,045 in commercial chemical revenue;

- an increase of \$2,392,990 in royalty revenue, which mainly represented royalties received under our patent license agreement with Samsung SMD; and

- an increase of \$1,111,296 in license fee revenue.

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

Table of Contents

In July 2010, we entered into an amendment to our patent license agreement with Samsung SMD. The amendment extended the term of this agreement for three months, and has subsequently been extended at three month intervals through September 30, 2011. As of the date of this filing, we are continuing to negotiate with Samsung SMD on the terms of a new business arrangement.

Developmental revenue increased to \$10,830,176 for the six months ended June 30, 2011, compared to \$8,911,440 for the six months ended June 30, 2010. Developmental revenue relates to OLED technology and material development and evaluation activities for which we are paid, and includes contract research revenue, development chemical revenue and technology development revenue. The increase in developmental revenue was due to:

- an increase of \$3,026,887 in development chemical revenue, mainly due to increased purchases of development chemicals by customers that are preparing for commercial production; and
- an increase in contract revenue of \$917,505; offset by
- a decrease of \$2,025,656 in technology development revenue, due to recognition of revenue during the six months ended June 30, 2010 of non-refundable payments totaling \$2,100,000 that were received from a customer through the fourth quarter of 2006.

The \$2,100,000 received from a customer referenced above was for technical assistance previously provided under an agreement to conduct OLED development, evaluation and sampling activities. These payments were made between the years 2001 and 2006, and the agreement itself expired at the end of 2006. We had previously classified these payments as deferred revenue because they were creditable against the license fee under a commercial license agreement in the event we entered into one with the customer. In May 2010, based on information received from the customer regarding its future OLED plans, we determined that the likelihood of us entering into a commercial license agreement was remote. As a result of this determination, we recorded the \$2,100,000 payment as technology development revenue in the second quarter of 2010. No similar revenue was recognized during the six months ended June 30, 2011.

Cost of chemicals sold decreased to \$245,202 for the six months ended June 30, 2011, compared to \$317,037 for the six months ended June 30, 2010. Cost of chemicals sold includes the cost of producing materials that have been classified as commercial and shipping costs for such materials, but excludes the cost of producing certain commercial materials which costs have already been included in research and development expense. Cost of chemicals sold does not include costs associated with producing materials that have not yet been classified as commercial, which costs are included in research and development expenses. Depending on the timing and stage of materials being classified as commercial, we expect the costs of chemicals for these materials to fluctuate from quarter to quarter. As a result of the aforementioned, cost of chemicals sold decreased for the six months ended June 30, 2011 compared to the same period 2010, although quantities sold increased.

We incurred research and development expenses of \$12,106,610 for the six months ended June 30, 2011, compared to \$10,329,304 for the six months ended June 30, 2010. The increase was mainly due to:

- increased costs of \$1,008,923 incurred under our agreement with PPG Industries;
- increased employee costs of \$890,801, due primarily to new employees, increased salaries, costs associated with retirement benefits and stock compensation for certain executive officers; and

increased costs of \$435,724, due to overall expanded research and development efforts to support the growth of our business; offset by

·decreased amortization costs of \$827,996 due to part of our acquired technology being fully amortized as of December 31, 2010.

Selling, general and administrative expenses were \$8,367,778 for the six months ended June 30, 2011, compared to \$6,266,828 for the six months ended June 30, 2010. The overall increase in these costs was driven in part to increased commercial activities and non-cash expenses related to stock compensation and in part by costs incurred to establish new subsidiaries in Hong Kong, Korea and Japan. Specifically, we incurred increased costs in the following areas:

·increased employee costs of \$790,401, due primarily to increased salaries and stock compensation for certain executive officers;

·increased costs of \$272,593 related to net periodic benefit costs of the Universal Display Corporation Supplemental Executive Retirement Plan (SERP) for certain executive officers, which was implemented in 2010 (see Note 10 in the Notes to Consolidated Financial Statements);

·costs of \$261,835 resulting from the incorporation and commencement of operations of certain of our foreign subsidiaries; and

·increased costs of \$258,739 related to stock compensation for members of our Board of Directors.

Patent costs increased to \$3,528,102 for the six months ended June 30, 2011, compared to \$1,625,166 for the six months ended June 30, 2010. The increase was mainly due to increased costs associated with our aggressive defense of certain ongoing and new patent challenges to our issued patents, as well as the timing of prosecution and maintenance costs associated with a number of patents and patent applications.

Interest income increased to \$280,350 for the six months ended June 30, 2011, compared to \$136,780 for the six months ended June 30, 2010. The increase was mainly attributable to interest earned on higher average cash and investment balances as a result of proceeds received from the completion of our public offering in March 2011.

Table of Contents

At June 30, 2011, we had outstanding warrants to purchase 214,746 shares of common stock, which warrants contain a “down-round” provision requiring liability classification. The change in fair value of these warrants during the period resulted in a \$4,429,845 non-cash loss on our statement of operations for the six months ended June 30, 2011, compared to a \$1,869,185 non-cash loss for the six months ended June 30, 2010. We will continue to report the warrants as a liability, with changes in fair value recorded in the statement of operations, until such time as these warrants are either exercised or expire in August 2011.

For the six months ended June 30, 2011, we incurred an income tax expense of \$585,817, compared to an income tax benefit of \$464,162 for the six months ended June 30, 2010. We had previously filed for and were granted a five-year exemption from withholding tax on royalty payments received from Samsung SMD under our patent license agreement as part of a tax incentive program in Korea. The exemption was granted in May 2005 and remained in effect until May 2010. Since then, Samsung SMD has been required to withhold tax upon payment of royalties to us. In 2011 and 2010, the withholding tax rate for royalty payments made by Samsung SMD was 16.5%. For the six months ended June 30, 2011, foreign income taxes of \$585,817 were withheld in connection with royalty payments. We anticipate the amount of withholding taxes to increase as associated payments received from Samsung SMD increase in the future.

During the three months ended March 31, 2010, we sold approximately \$3.8 million of our state-related income tax net operating losses (NOLs) and \$194,088 of our research and development tax credits under the New Jersey Technology Tax Certificate Transfer Program. We received proceeds of \$464,162 from our sale of these NOLs and research and development tax credits, and we recorded these proceeds as an income tax benefit. No corresponding sales have occurred during the six months ended June 30, 2011.

Liquidity and Capital Resources

As of June 30, 2011, we had cash and cash equivalents of \$65,240,065 and short-term investments of \$261,158,726, for a total of \$326,398,791. This compares to cash and cash equivalents of \$20,368,852 and short-term investments of \$52,794,545, for a total of \$73,163,397, as of December 31, 2010. The increase in cash and cash equivalents and short-term investments of \$253,235,394 was primarily due to the completion in March 2011 of our public offering of 5,750,000 shares of our common stock at a price of \$46.00 per share. The offering resulted in net proceeds to us of \$249,667,306.

Cash provided from operating activities was \$1,840,143 for the six months ended June 30, 2011, compared to cash used of \$2,757,981 for the same period in 2010. The increase in cash provided in operating activities was primarily due to the following:

- a decrease in net loss of \$3,579,874, which amount excludes the impact of non-cash items;
and
- the impact of the timing of receipt of accounts receivable of \$1,247,766; offset partially by
- the impact of the timing of other asset purchases, including inventory, of \$808,867

Table of Contents

Cash used in investing activities was \$210,354,026 for the six months ended June 30, 2011, compared to \$13,270,033 for the same period in 2010. The increase in cash used in investing activities was mainly due to increased purchases of short-term investments as a result of the completion of our public offering described below.

Cash provided by financing activities was \$253,385,096 for the six months ended June 30, 2011, compared to \$5,081,173 for the same period in 2010. The increase in cash provided by financing activities was due primarily to the completion in March 2011 of a public offering of 5,750,000 shares of our common stock at a price of \$46.00 per share. The offering resulted in proceeds to us of \$249,667,306, which was net of \$14,832,694 in underwriting discounts and commissions and other costs associated with completion of the offering.

Working capital was \$317,547,099 as of June 30, 2011 which included a stock warrant liability of \$4,588,178, compared to \$57,354,822 as of December 31, 2010, which included a stock warrant liability of \$10,659,755. The stock warrants associated with this liability will either expire or be exercised by August 2011, resulting in no cash outlay by us. Working capital, excluding the stock warrant liability, was \$322,135,277 as of June 30, 2011 and \$68,014,577 at December 31, 2010. Again, the increase in working capital was primarily due to proceeds from the common stock offering we completed in March 2011.

We anticipate, based on our internal forecasts and assumptions relating to our operations (including, among others, assumptions regarding our working capital requirements, the progress of our research and development efforts, the availability of sources of funding for our research and development work, and the timing and costs associated with the preparation, filing, prosecution, maintenance, defense and enforcement of our patents and patent applications), that we have sufficient cash, cash equivalents and short-term investments to meet our obligations for at least the next 12 months.

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

Critical Accounting Policies

Revenue Recognition and Deferred Revenue

We receive non-refundable cash payments under certain development and technology evaluation agreements with our customers. These payments are generally recognized as revenue over the term of the agreement. On occasion, however, these payments are creditable against license fees and/or royalties payable by the customer if a license agreement is subsequently executed with the customer. These payments are classified as deferred revenues, and are recorded as liabilities in the consolidated balance sheet until such time as revenue can be recognized. Revenue is deferred until a license agreement is executed or negotiations have ceased and there is no appreciable likelihood of executing a license agreement with the customer. If a license agreement is executed, these payments are recorded as revenue over the estimated useful life of the licensed technology and the revenue is classified based on the terms of the license. Otherwise, these payments are recorded as revenue at the time negotiations with the customer show that there is no appreciable likelihood of executing a license agreement. If we used different estimates for the useful life of the licensed technology, reported revenue during the relevant period would differ. As of June 30, 2011, \$8,263,725 was recorded as deferred revenue, of which \$3,366,667 may be recognized under license agreements that have not yet been executed or deemed effective. For the three and six months ended June 30, 2010, \$2,100,000 of revenue was recognized relating to cash payments received that were creditable against license fees and/or royalties for which we

determined there was no appreciable likelihood of executing a license agreement with the customer. For the six months ended June 30, 2011, there was no such revenue recognized.

Contract research revenue represents reimbursements by the U.S. government for all or a portion of the research and development expenses we incur related to our government contracts. Revenue is recognized proportionally as research and development expenses are incurred or as defined milestones are achieved. In order to ascertain the revenue associated with these contracts for a period, we estimate the proportion of related research and development expenses incurred and whether defined milestones have been achieved. Different estimates would result in different revenues for the period.

Table of Contents

Valuation of Stock-Based Compensation

We recognize in the statement of operations the grant-date fair value of equity-based compensation issued to employees and directors (see Note 9 of the Notes to Consolidated Financial Statements). We also record an expense for equity-based compensation grants to non-employees, in exchange for goods or services, based on the fair value, which is remeasured over the vesting period of such awards.

We use the Black-Scholes option-pricing model to estimate the fair value of options and warrants we have granted for purposes of recording charges to the statement of operations. In order to calculate the fair value of the options and warrants, assumptions are made for certain components of the model, including expected volatility, expected dividend yield rate and expected option life. Expected volatilities utilized in the model are based mainly on the historical volatility of our stock price over a period commensurate with the expected life of the share option. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. In the case of stock options granted to employees, we estimate the expected term of options granted based on our historical experience with our employees' exercise of stock options. In the case of stock options granted to non-employees, the contractual life is used. Although we use our best estimates when setting these assumptions, changes to the assumptions could cause significant adjustments to the valuation of future grants or the remeasurement of non-employee awards.

Accounting for Warrants

On January 1, 2009, we adopted certain revised provisions of Accounting Standards Codification (ASC) 815, Derivatives and Hedging. These provisions apply to freestanding financial instruments or embedded features that have the characteristics of a derivative and to freestanding financial instruments that are potentially settled in an entity's own common stock. As a result, certain of our warrants are considered to be derivatives since they contain "down-round" provisions and must be remeasured at fair value at the end of each period as they are recorded as liabilities. The stock warrant liability was \$4,588,178 at June 30, 2011.

The fair value of the stock warrant liability is determined by the Black-Scholes option pricing model using assumptions for certain components of the model, including expected volatility and expected annual dividend yield. Expected volatilities utilized in the model are based mainly on the historical volatility of our stock price over a period commensurate with the remaining contractual life of the warrant. The risk-free interest rate is derived from the U.S. Treasury yield curve. The expected term of the warrants is based on the remaining contractual life. Although we use our best estimates when setting these assumptions, changes in assumptions could cause significant adjustments to the future valuation of the stock warrant liability. The change in fair value of the stock warrant liability is recorded as a gain or loss on the statement of operations.

Retirement Plan

We have recorded a significant retirement plan benefit liability that is developed from actuarial valuations. The determination of our retirement plan benefit liability requires key assumptions regarding discount rates, as well as rates of compensation increases, retirement dates and life expectancies used to determine the present value of future benefit payments. We determine these assumptions in consultation with, and after input from, our actuaries and considering our experience and expectations for the future. Actual results for a given period will often differ from assumed amounts because of economic and other factors.

The discount rate reflects the estimated rate at which the benefit liabilities could be settled at the end of the year. The discount rate is determined by selecting a single rate that produces a result equivalent to discounting expected benefit payments from the plan using the Citigroup Above-Median Pension Discount Curve (Curve). Based upon this analysis using the Curve, we used a discount rate to measure our retirement plan benefit liability of 5.44% at June 30, 2011. A change of 25 basis points in the discount rate would increase or decrease the expense on an annual basis by

approximately \$21,000.

Contractual Obligations

Refer to our Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of our contractual obligations.

Off-Balance Sheet Arrangements

Refer to our Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of off-balance sheet arrangements. As of June 30, 2011, we had no off-balance sheet arrangements.

28

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We record as a liability the fair value of warrants to purchase 214,746 shares of our common stock. The fair value of the stock warrant liability is determined using the Black-Scholes option valuation model, and is therefore sensitive to changes in our stock price and volatility of our common stock. Our primary market risk exposure to the stock warrant liability is to changes in our stock price, which would impact the valuation of the stock warrant liability. Increases in our stock price or the expected volatility of our common stock would increase the fair value of the stock warrant liability and, therefore, result in an additional loss on the statement of operations. Decreases in these items would decrease the fair value of the stock warrant liability and, therefore, result in an additional gain on the statement of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, are effective to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. However, a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Opposition to European Patent No. 0946958

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

with this proceeding.

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

CDT filed an appeal to the EPO decision on January 25, 2010. CDT timely filed its grounds for the appeal with the EPO on or about April 1, 2010. The EPO set August 12, 2010 as the due date for filing our reply to this appeal. Our reply was timely filed.

29

Table of Contents

At this time, based on our current knowledge, we believe that the EPO decision will be upheld on appeal. However, we cannot make any assurances of this result.

Opposition to European Patent No. 1449238

On March 8, 2007, Sumation Company Limited (Sumation), a joint venture between Sumitomo and CDT, filed a first Notice of Opposition to European Patent No. 1449238 (EP '238 patent). The EP '238 patent, which was issued on November 2, 2006, is a European counterpart patent, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011. These patents and this patent application relate to our UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

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

The EPO set a January 6, 2008 due date for us to file our response to the opposition. We requested a two-month extension to file this response, which we subsequently filed in a timely manner. The other parties in the opposition have not filed any additional documents to which we might respond.

The EPO issued a Summons on July 8, 2011 setting the date of the Oral Hearing for November 3, 2011. At this time, we cannot make any prediction as to the probable outcome of the opposition. However, based on our current knowledge, and the issues raised by the EPO in its non-binding preliminary opinion that accompanied the Summons for the Oral Hearing, we believe there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of our claims will be upheld.

Invalidation Trial in Japan for Japan Patent No. 3992929

On April 19, 2010, we received a copy of a Notice of Invalidation Trial from the Japanese Patent Office (the JPO) for our Japan Patent No. 3992929 (the JP '929 patent), which was issued on August 3, 2007. The request for the Invalidation Trial was filed by Semiconductor Energy Laboratory Co., Ltd. (SEL), of Kanagawa, Japan. The JP '929 patent is a Japanese counterpart patent, in part, to the above-noted EP '238 patent and to the above-noted family of U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011. Under our license agreement with Princeton, we are required to pay all legal costs and fees associated with this proceeding.

On August 24, 2010, the JPO issued a Notice for an Oral Hearing in this matter, which was held on November 16, 2010. On February 28, 2011, we learned that the JPO had issued a decision recognizing our invention and upholding the validity of most of the claims, but finding the broadest claims in the patent invalid. We believe that the JPO's decision invalidating these claims was erroneous, and we filed an appeal to the Japanese IP High Court on June 22, 2011. We timely filed our appeal brief that was due August 5, 2011.

At this time, based on our current knowledge, we believe that the JPO decision invalidating certain claims in our JP '929 patent should be overturned on appeal as to all or a significant portion of the claims. However, we cannot make any assurances of this result.

Opposition to European Patent No. 1394870

On about April 20, 2010, five European companies filed Notices of Opposition to European Patent No. 1394870 (the EP '870 patent). The EP '870 patent, which was issued on July 22, 2009, is a European counterpart patent, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542; 7,563,519; and 7,901,795; and to pending U.S. patent application 13/035051, filed on February 25, 2011. These patents and this patent application relate to our UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding. The five companies are Merck Patent GmbH; BASF Schweiz AG of Basel, Switzerland; Osram GmbH of Munich, Germany; Siemens Aktiengesellschaft of Munich, Germany; and Koninklijke Philips Electronics N.V., of Eindhoven, The Netherlands.

The EPO combined the oppositions into a single opposition proceeding and set October 4, 2010 as the due date for us to file our response, subject to extension. We requested a two-month extension to file this response, and we subsequently filed our

Table of Contents

response in a timely manner. We are still waiting for the EPO to provide notice of the date of the Oral Hearing. We are also waiting to see whether any of the other parties in the opposition file additional documents, to which we might respond.

At this time, we cannot make any prediction as to the probable outcome of the oppositions. However, based on our current knowledge, we believe there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Invalidation Trials in Japan for Japan Patent Nos. 4357781 and 4358168

On May 24, 2010, we received copies of two additional Notices of Invalidation Trials against Japan Patent Nos. 4357781 (the JP '781 patent) and 4358168 (the JP '168 patent), which were both issued on August 14, 2009. The requests for these two additional Invalidation Trials were also filed by SEL. The JP '781 and '168 patents are also Japanese counterpart patents, in part, to the above-noted family of U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011. Under our license agreement with Princeton, we are also required to pay all legal costs and fees associated with these two proceedings.

The JPO set a due date of August 18, 2010 for us to file our response to the evidence and arguments submitted with the requests for the Invalidation Trials. We requested and the JPO granted a 30-day extension for us to file our response, which was timely filed.

Additional written statements were filed in January 2011 in response to a request by the JPO, addressing points that were expected to be raised by the JPO at the Oral Hearing that was held on February 1, 2011. Another written statement was submitted in February 2011 to address additional points raised at the Oral Hearing.

On March 31, 2011, we learned that the JPO had issued decisions finding all claims in the JP '781 and JP '168 patents invalid. We believe that the JPO's decisions invalidating these claims were erroneous. We timely filed appeals for each case on July 26, 2011.

At this time, based on our current knowledge, we believe that the JPO decisions invalidating all the claims in our JP '781 and JP '168 patents should be overturned on appeal as to all or a significant portion of the claims. However, we cannot make any assurances of this result.

Interference No. 105,771 involving Claims 48-52 of US Patent No. 6,902,830

Patent Interference No. 105,771 was declared by the United States Patent and Trademark Office (the USPTO) on November 17, 2010 between The University of Southern California and The Trustees of Princeton University (the Universities), Junior Party, and Fujifilm Holding Corporation (Fuji), Senior Party. The dispute is between the Universities' U.S. Patent No 6,902,830 (the '830 patent), claims 48-52, and Fuji's Patent Application No. 11/802,492, claims 1-5. The '830 patent relates to our UniversalPHOLED phosphorescent OLED technology. It is exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

The USPTO declares an interference when two or more parties claim the same patentable invention. The objective of an interference is to contest which party, if any, has both a right to participate in the proceeding and a right to the claimed invention and, if more than one party does, then to contest which party has the earliest priority date for the claimed invention.

At a telephone hearing on January 28, 2011, the Universities were authorized to file seven motions. At a telephone conference on March 31, 2011, the USPTO granted Fuji's request for an extension of the date for filing these motions due to the recent difficulties in Japan. The USPTO established an extended filing date of June 3, 2011. The USPTO further extended the filing date until July 1, 2011, on which date the motions were filed. The USPTO has now set August 12, 2011 as the due date for filing responsive motions.

At this time, based on our current knowledge, we believe there is a substantial likelihood that our claims 48-52 of the '830 patent, or a significant portion thereof, will prevail. However, we cannot make any assurances of this result.

Invalidation Trial in Korea for Patent No. KR-0998059

On March 10, 2011, we received informal notice from our Korean patent counsel of a Request for an Invalidation Trial from the Korean Intellectual Property Office (KIPO) for our Korean Patent No. 10-0998059 (the KR '059 patent), which was issued on November 26, 2010. The Request was filed by a certain individual, but we still do not know which company, if any, was ultimately responsible for filing this Request. Our Korean patent counsel received the Appeal Brief from KIPO on

Table of Contents

April 21, 2011, at which time KIPO set a date of May 18, 2011 (extendable to June 20, 2011) for us to file our response. A response to the Request was filed on June 20, 2011. The KR '059 patent is a Korean counterpart patent to the OVJP, Organic Vapor Jet Printing, family of U.S. patents originating from US 7,431,968.

At this time, we cannot make any prediction as to the probable outcome of this Invalidation Trial. However, based on our current knowledge, we believe there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Invalidation Trials in Korea for Patent Nos. KR-558632 and KR-963857

On May 11 and May 31, 2011, respectively, we learned that further Requests for Invalidation Trials were filed in Korea, on May 3 and May 26, 2011, respectively, for our Korean Patent Nos. KR-558632 (the KR '632 patent), which issued on March 2, 2006, and KR-963857 (the KR '857 patent), which issued on June 8, 2010. The Requests were filed by Duk San Hi-metal, Ltd. (Duk San) of Korea. The KR '632 and KR '857 patents are both Korean counterpart patents, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542 and 7,563,519; and to pending U.S. patent application 12/489,045, filed on June 22, 2009; to the EP '870 patent, which is subject to one of the above-noted European Oppositions; and to the JP '024 patent, which is subject to the below-noted Japanese Invalidation Trial. These patents and the pending U.S. patent application relate to our UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

Formal, substantially non-substantive responses were due in Korea on June 27, 2011 and July 8, 2011, respectively, but these due dates have been extended for two months, until August 27, 2011 and September 8, 2011, respectively.

At this time, we cannot make any prediction as to the probable outcome of these Korean Invalidation Trials. However, based on our current knowledge, we believe there is a substantial likelihood that the patents being challenged will be declared valid, and that all or a significant portion of their claims will be upheld.

Invalidation Trials in Korea for Patent Nos. KR-744199 and KR-913568

On May 10 and May 31, 2011, respectively, we learned that further Requests for Invalidation Trials were filed in Korea, on May 3 and May 26, 2011, respectively, for our Korean Patent Nos. KR-744199 (the KR '199 patent), which issued on July 24, 2007, and KR-913568 (the KR '568 patent), which issued on August 17, 2009. The Requests were also filed by Duk San. The KR '199 and KR '568 patents are both Korean counterpart patents, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011; to the EP '238 patent, which is subject to one of the above-noted European Oppositions; and to the JP '929 patent, which is subject to one of the above-noted Japanese Invalidation Trials. These patents and this patent application relate to our UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

Formal, substantially non-substantive responses were due in Korea on July 1, 2011 and June 23, 2011, respectively, but these due dates have been extended for two months, until September 1, 2011 and August 23, 2011, respectively.

At this time, we cannot make any prediction as to the probable outcome of these Korean Invalidation Trials. However, based on our current knowledge, we believe there is a substantial likelihood that the patents being challenged will be declared valid, and that all or a significant portion of their claims will be upheld.

Invalidation Trials in Japan for Japan Patent No. 4511024

On June 16, 2011, we learned that a further Request for an Invalidation Trial was filed in Japan for our Japanese Patent No. JP-4511024 (the JP '024 patent), which issued on May 14, 2010. The Request was filed by SEL, the same opponent as in the above-noted Japanese Invalidation Trial for the JP '929 patent. The JP '024 patent is a counterpart patent, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542; 7,563,519; and 7,901,795; and to pending U.S. patent application 13/035051, filed on February 25, 2011; to the EP '870 patent, which is subject to one of the above-noted European Oppositions; and to the KR '632 and KR '857 patents, which are subject to one of the above noted Korean Invalidation Trials. These patents and the pending U.S. patent application relate to our UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

Table of Contents

At this time, we cannot make any prediction as to the probable outcome of this Japanese Invalidation Trial. However, based on our current knowledge, we believe there is a substantial likelihood that the patent being challenged will be declared valid, and that all or a significant portion of its claims will be upheld.

Opposition to European Patent No. 1252803

On July 12 and 13, 2011, Oppositions were filed to European Patent No. 1252803 (the EP '803 patent). These Oppositions were filed by Sumitomo, Merck Patent GmbH and BASF SE, of Ludwigshaven, Germany. The EP '803 patent, which was issued on October 13, 2010, is a European counterpart patent, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011. These patents and this patent application relate to our UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

It is expected the EPO will combine all three Oppositions into a single opposition proceeding. The Opposition documents are currently under review by us.

Invalidation Trials in Korea for Patent Nos. KR-840,637 and KR-937,470

On August 8, 2011, we received information indicating that further Requests for Invalidation Trials were filed against Korean Patent Nos. KR-840,637 (the KR '637 patent) and KR-937,470 (the KR '470 patent), which issued on June 17, 2008 and January 11, 2010, respectively. The Requests were also filed by Duk San. The KR '637 and KR '470 patents are both Korean counterpart patents, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent application 13/009001, filed on January 19, 2011; to the EP '803 patent, which is subject to one of the above-noted European Oppositions; and to the JP '781 and JP '168 patents, which are subject to the above-noted Japanese Invalidation Trials. These patents and this patent application relate to our UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding.

The Requests have not yet been served to our Korean counsel. Accordingly, we cannot make any prediction as to the probable outcome of these Korean Invalidation Trials at this time.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, as supplemented by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

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

Issuance of Unregistered Shares Upon the Exercise of Outstanding Warrants

During the quarter ended June 30, 2011, we issued an aggregate of 102,550 unregistered shares of our common stock upon the exercise of outstanding warrants. The warrants had a weighted average exercise price of \$13.73 per share. All of the shares were issued in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended.

Withholding of Shares to Satisfy Tax Liabilities

During the quarter ended June 30, 2011, we acquired 569 shares of common stock through transactions related to the vesting of restricted share awards previously granted to certain employees. Upon vesting, the employees turned in shares of common stock in amounts sufficient to pay their minimum statutory tax withholding at rates required by the relevant tax authorities.

The following table provides information relating to the shares we received during the quarter ended June 30, 2011.

33

Table of Contents

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|--------------------|----------------------------------|---------------------------------------|--|--|
| April 1 – April 30 | — | \$ — | n/a | -- |
| May 1 – May 31 | 569 | 52.98 | n/a | -- |
| June 1 – June 30 | — | — | n/a | -- |
| Total | 569 | \$ 52.98 | n/a | -- |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

At the Company's 2011 Annual Meeting of Shareholders held on June 23, 2011, a majority of the Company's outstanding shares of common stock that voted on the matter were voted in favor of conducting future non-binding, advisory votes on executive compensation on an every year basis. The Company has considered this shareholder vote, and intends to conduct future non-binding, advisory votes on executive compensation on an every year basis until the next vote by the Company's shareholders on the frequency of such votes, which will be no later than the Company's 2017 Annual Meeting of Shareholders.

ITEM 6. EXHIBITS

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

| Exhibit Number | Description |
|----------------|--|
| 10.1* | Amendment No. 5 to the OLED Patent License Agreement between the registrant and Samsung Mobile Display Co., Ltd., dated as of April 14, 2011 |
| 10.2* | Amendment No. 6 to the OLED Patent License Agreement between the registrant and Samsung Mobile Display Co., Ltd., dated as of June 30, 2011 |
| 10.3+ | Universal Display Corporation Equity Compensation Plan (as amended effective as of June 23, 2011) |
| 31.1* | Certifications of Steven V. Abramson, Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) |

- 31.2* Certifications of Sidney D. Rosenblatt, Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)
- 32.1** Certifications of Steven V. Abramson, Chief Executive Officer, as required by Rule 13a-14(b) or Rule 15d-14(b), and by 18 U.S.C. Section 1350 (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
- 32.2** Certifications of Sidney D. Rosenblatt, Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b), and by 18 U.S.C. Section 1350 (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)

Table of Contents

- * Filed herewith.
- ** Furnished herewith.
- + Filed as an exhibit to the Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders, filed with the SEC on April 29, 2011.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

UNIVERSAL DISPLAY
CORPORATION

Date: August 8, 2011

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