IRIDEX CORP
Form 10-Q
November 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 3, 2015

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: 0-27598

IRIDEX CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 77-0210467<br>(I.R.S. Employer Identification Number) |
| 1212 Terra Bella Avenue<br>Mountain View, California<br>(Address of principal executive offices) | 94043-1824<br>(Zip Code) |

Registrant's telephone number, including area code: (650) 940-4700

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 þ 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 þ |

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

The number of shares of common stock, $0.01 par value, issued and outstanding as of October 23, 2015 was 9,945,820.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

IRIDEX Corporation

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands except share and per share data)

| | October 3, 2015 | January 3, 2015 (1) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $10,213 | $13,303 |
| Accounts receivable, net of allowance for doubtful accounts of $149 as of October 3, 2015 and $223 as of January 3, 2015 | 7,736 | 8,337 |
| Inventories | 11,184 | 9,119 |
| Prepaid expenses and other current assets | 666 | 510 |
| Deferred income taxes - current | 1,625 | 1,625 |
| Total current assets | 31,424 | 32,894 |
| Property and equipment, net | 1,089 | 735 |
| Intangible assets, net | 272 | 284 |
| Goodwill | 533 | 533 |
| Deferred income taxes - long term | 7,149 | 7,151 |
| Other long-term assets | 184 | 221 |
| Total assets | $40,651 | $41,818 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $2,559 | $1,758 |
| Accrued compensation | 1,311 | 1,863 |
| Accrued expenses | 1,536 | 1,770 |
| Accrued warranty | 528 | 469 |
| Deferred revenue | 1,211 | 1,179 |
| Total current liabilities | 7,145 | 7,039 |
| Long-term liabilities: | | |
| Other long-term liabilities | 686 | 1,043 |
| Total liabilities | 7,831 | 8,082 |
| Stockholders' equity: | | |
| Common stock, $0.01 par value: | | |
| Authorized: 30,000,000 shares; | | |
| Issued and outstanding 9,940,122 and 9,786,695 shares as of October 3, 2015 and as of January 3, 2015, respectively | 110 | 108 |
| Additional paid-in capital | 37,557 | 38,511 |

| | | |
|---|---|---|
| Accumulated deficit | (4,847 ) | (4,883 ) |
| Total stockholders' equity | 32,820 | 33,736 |
| Total liabilities and stockholders' equity | $40,651 | $41,818 |

(1) Derived from the audited consolidated financial statements included in the Annual Report on Form 10-K filed with the SEC for the year ended January 3, 2015.

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

IRIDEX Corporation

Condensed Consolidated Statements of Operations

(Unaudited, in thousands except per share data)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 3, 2015 | September 27, 2014 | October 3, 2015 | September 27, 2014 |
| Total revenues | $ 9,815 | $ 10,118 | $ 29,644 | $ 31,036 |
| Cost of revenues | 4,974 | 4,969 | 15,176 | 15,532 |
| Gross profit | 4,841 | 5,149 | 14,468 | 15,504 |
| Operating expenses: | | | | |
| Research and development | 1,237 | 1,096 | 4,000 | 3,596 |
| Sales and marketing | 2,234 | 1,980 | 6,463 | 5,784 |
| General and administrative | 1,227 | 1,467 | 4,206 | 4,521 |
| Total operating expenses | 4,698 | 4,543 | 14,669 | 13,901 |
| Income (loss) from operations | 143 | 606 | (201 ) | 1,603 |
| Other income (expense), net | 164 | (112 ) | 134 | (300 ) |
| Income (loss) from operations before (benefit from) provision for income taxes | 307 | 494 | (67 ) | 1,303 |
| (Benefit from) provision for income taxes | (135 ) | 4 | (103 ) | 29 |
| Net income | $ 442 | $ 490 | $ 36 | $ 1,274 |
| Net income per share: | | | | |
| Basic | $ 0.04 | $ 0.05 | $ 0.00 | $ 0.13 |
| Diluted | $ 0.04 | $ 0.05 | $ 0.00 | $ 0.12 |
| Weighted average shares used in computing net income per common share: | | | | |
| Basic | 9,972 | 9,869 | 9,956 | 9,918 |
| Diluted | 10,094 | 10,255 | 10,142 | 10,397 |

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

IRIDEX Corporation

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 3, 2015 | September 27, 2014 | October 3, 2015 | September 27, 2014 |
| Net income | $ 442 | $ 490 | $ 36 | $ 1,274 |
| Other comprehensive income, net of tax | — | — | — | — |
| Comprehensive income | $ 442 | $ 490 | $ 36 | $ 1,274 |

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

IRIDEX Corporation

Condensed Consolidated Statements of Cash Flows

(Unaudited, in thousands)

| | Nine Months Ended | |
|---|---|---|
| | October 3, 2015 | September 27, 2014 |
| Operating activities: | | |
| Net income | $36 | $ 1,274 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | PROPERTIES | |

Our corporate offices and research and development laboratories are located at 375 Phillips Boulevard in Ewing, New Jersey. In 2004, we acquired the building and property at which this facility is located. During 2005, we conducted a two-stage expansion of our laboratory and office space in the building. We currently occupy the entire 40,200 square feet facility.

ITEM 3. LEGAL PROCEEDINGS

Opposition to European Patent No. 0946958

On December 8, 2006, CDT, which was acquired in 2007 by 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 (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.

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 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009. 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. We are still waiting for the EPO to notify us of the date of the Oral Hearing. We are also waiting to see whether the other parties in the opposition file any additional documents, to which we may respond.

At this time, we cannot make any prediction as to the probable outcome of the opposition. 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 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 (JPO) for our Japan Patent No. 3992929 (JP '929 patent), which was issued on August 3, 2007. The request for the Invalidation Trial was filed by Semiconductor Energy Laboratory Co., Ltd., 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 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009.

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. We are still waiting to receive a translated copy of the JPO's decision, after which we plan to appeal this portion of the decision to the Japanese IP High Court.

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. 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 (EP ‘270 patent). The EP ‘270 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 and 7,563,519; and to pending U.S. patent application 12/489,045, filed on June 22, 2009. These patents and this patent application relate to our PHOLED technology. They are exclusively licensed to us by Princeton, and under the license agreement we are required to pay all legal costs and fees associated with this proceeding. The five companies are Merck Patent GmbH, of Darmstadt, Germany; BASF Schweitz AG of Basil, 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 response in a timely manner. We are still waiting for the EPO to notify us 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 may 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 (JP '781 patent) and 4358168 (JP '168 patent), which were both issued on August 14, 2009. The requests for these two additional Invalidation Trials were also filed by Semiconductor Energy Laboratory Co., Ltd., of Kanagawa, Japan. 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 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009. 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.

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

Interference 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 (USPTO) on November 17, 2010 between The University of Southern California and The Trustees of Princeton University, Junior Party, (The Universities) and Fujifilm Holding Corporation (Fuji), Senior Party. The dispute is between The Universities' U.S. Patent No 6,902,830 ('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, which all have a due date of April 29, 2011. We are currently preparing to file these motions.

At this time, we cannot make any prediction as to the probable outcome of the Interference. However, based on our current knowledge, we believe there is a substantial likelihood that our claims 48-52 of the ‘830 patent will prevail.

Request for an Invalidation Trial in Korea for Patent No. 10-0998059

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 (KR '059 patent), which was issued on November 26, 2010. We do not yet know who filed the request. 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.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information with respect to our executive officers as of March 9, 2011:

| Name | Age | Position |
|---|---|---|
| Sherwin I. Seligsohn | 75 | Founder and Chairman of the Board of Directors |
| Steven V. Abramson | 59 | President, Chief Executive Officer and Director |
| Sidney D. Rosenblatt | 63 | Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director |
| Julia J. Brown | 50 | Vice President and Chief Technical Officer |
| Janice K. Mahon | 53 | Vice President of Technology Commercialization and General Manager of Material Supply Business |
| Michael G. Hack | 54 | Vice President of Strategic Product Development and General Manager of OLED Lighting and Custom Displays Business |

Our Board of Directors has appointed these executive officers to hold office until their successors are duly appointed.

Sherwin I. Seligsohn is our Founder and has been the Chairman of our Board of Directors since June 1995. He also served as our Chief Executive Officer from June 1995 through December 2007, and as our President from June 1995 through May 1996. Mr. Seligsohn serves as the sole Director, President and Secretary of American Biomimetics Corporation, International Multi-Media Corporation, and Wireless Unified Network Systems Corporation. He is also Chairman of the Board of Directors, President and Chief Executive Officer of Global Photonic Energy Corporation. From June 1990 to October 1991, Mr. Seligsohn was Chairman Emeritus of InterDigital Communications, Inc. (InterDigital), formerly International Mobile Machines Corporation. He founded InterDigital and from August 1972 to June 1990 served as its Chairman of the Board of Directors. Mr. Seligsohn is a member of the Industrial Advisory Board of the Princeton Institute for the Science and Technology of Materials (PRISM) at Princeton.

Steven V. Abramson is our President and Chief Executive Officer, and has been a member of our Board of Directors since May 1996. Mr. Abramson served as our President and Chief Operating Officer from May 1996 through December 2007. From March 1992 to May 1996, Mr. Abramson was Vice President, General Counsel, Secretary and Treasurer of Roy F. Weston, Inc., a worldwide environmental consulting and engineering firm. From December 1982 to December 1991, Mr. Abramson held various positions at InterDigital, including General Counsel, Executive Vice President and General Manager of the Technology Licensing Division. Mr. Abramson has also been a member of the Board of Directors of the OLED Association since its inception in 2008.

Sidney D. Rosenblatt is an Executive Vice President and has been our Chief Financial Officer, Treasurer and Secretary since June 1995. He also has been a member of our Board of Directors since May 1996. Mr. Rosenblatt is the owner of and served as the President of S. Zitner Company from August 1990 through December 1998. From May 1982 to August 1990, Mr. Rosenblatt served as the Senior Vice President, Chief Financial Officer and Treasurer of InterDigital.

Julia J. Brown, Ph.D. is a Senior Vice President and has been our Chief Technical Officer since June 2002. She joined us in June 1998 as our Vice President of Technology Development. From November 1991 to June 1998, Dr. Brown was a Research Department Manager at Hughes Research Laboratories where she directed the pilot line production of high-speed Indium Phosphide-based integrated circuits for insertion into advanced airborne radar and satellite communication systems. Dr. Brown received an M.S. and Ph.D. in Electrical Engineering/Electrophysics at USC under the advisement of

Professor Stephen R. Forrest. Dr. Brown has served as an Associate Editor of the Journal of Electronic Materials and as an elected member of the Electron Device Society Technical Board. She co-founded an international engineering mentoring program sponsored by the Institute of Electrical and Electronics Engineers (IEEE) and is a Fellow of the IEEE. Dr. Brown has served on numerous technical conference committees and is presently a member of the Society of Information Display.

Janice K. Mahon has been our Vice President of Technology Commercialization since January 1997, and became the General Manager of our Materials Supply Business in January 2007. From 1992 to 1996, Ms. Mahon was Vice President of SAGE Electrochromics, Inc., a thin-film electrochromic technology company, where she oversaw a variety of business development, marketing and finance and administrative activities. From 1984 to 1989, Ms. Mahon was a Vice President and General Manager for Chronar Corporation, a leading developer and manufacturer of amorphous silicon photovoltaic (PV) panels. Prior to that, Ms. Mahon worked as Senior Engineer for the Industrial Chemicals Division of FMC Corporation. Ms. Mahon received her B.S. in Chemical Engineering from Rensselaer Polytechnic Institute in 1979, and an M.B.A. from Harvard University in 1984. Ms. Mahon was a member of the Technical Council of the FlexTech Alliance from 1997 through 2010, and a member of its Governing Board from 2008 through 2010. Ms. Mahon has also served as chairperson of the Marketing Committee for the OLED Association since the beginning of 2009.

Michael G. Hack, Ph.D. has been our Vice President of Strategic Product Development since October 1999, and became the General Manager of our OLED Lighting and Custom Displays Business in January 2010. Prior to joining us, Dr. Hack was associated with dpiX, a Xerox Company, where from 1996 to 1999 he was responsible for manufacturing flat panel displays and digital medical imaging products based on amorphous silicon TFT technology. Previously, Dr. Hack was a Principal Scientist with Xerox PARC, engaged in the research of material and device aspects of amorphous- and poly-silicon as related to flat panel displays. Dr. Hack received his Ph.D. degree from Cambridge University, England in 1981, and in 2007 he was elected a Fellow of the Society for Information Display. Dr. Hack is also a member of the Governing Board of The Army Flexible Display Center at Arizona State University.

## ITEM 4. REMOVED AND RESERVED

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock

Our common stock is quoted on the NASDAQ Global Market under the symbol “PANL.” The following table sets forth, for the periods indicated, the high and low closing prices of our common stock as reported on the NASDAQ Global Market.

| | High Close | Low Close |
|---|---|---|
| 2010 | | |
| Fourth Quarter | $ 31.98 | $ 22.34 |
| Third Quarter | 24.25 | 17.52 |
| Second Quarter | 19.35 | 11.83 |
| First Quarter | 14.24 | 10.53 |
| 2009 | | |
| Fourth Quarter | $ 13.72 | $ 10.68 |

| | | |
|---|---|---|
| Third Quarter | 12.78 | 9.18 |
| Second Quarter | 11.98 | 8.10 |
| First Quarter | 10.12 | 5.04 |

As of March 9, 2011, there were approximately 350 holders of record of our common stock.

We have never declared or paid cash dividends on our common stock. We currently intend to retain any future earnings for the operation and expansion of our business. We do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. Any future payment of cash dividends on our common stock will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our Board of Directors.

Issuance of Shares to PPG Industries

Under our agreement with PPG Industries, we have the option to issue shares of our common stock to PPG Industries on a periodic basis as payment for up to 50% of the amounts due for certain services performed for us by PPG Industries. During the quarter ended December 31, 2010, we issued an aggregate of 31,076 shares of our common stock to PPG Industries as partial payment for these services. The shares were issued in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended.

Issuance of Unregistered Shares Upon the Exercise of Outstanding Warrants

During the quarter ended December 31, 2010, we issued an aggregate of 342,365 unregistered shares of our common stock upon the exercise of outstanding warrants. The warrants had a weighted average exercise price of $17.495 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 Liability

During the quarter ended December 31, 2010, we acquired 405 shares of common stock through a transaction related to the vesting of a restricted share award previously granted to an employee of ours. Upon vesting, the employee turned in shares of common stock in an amount sufficient to pay his 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 fourth quarter of 2010.

| 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 |
|---|---|---|---|---|
| October 1 – October 31 | 405 | $ 25.86 | n/a | -- |
| November 1 – November 30 | -- | -- | n/a | -- |
| December 1 – December 31 | -- | -- | n/a | -- |
| Total | 405 | $ 25.86 | n/a | -- |

Performance Graph

The performance graph below compares the change in the cumulative shareholder return of our common stock from December 31, 2005 to December 31, 2010, with the percentage change in the cumulative total return over the same period on (i) the Russell 2000 Index, and (ii) the Nasdaq Electronics Components Index. This performance graph assumes an initial investment of $100 on December 31, 2005 in each of our common stock, the Russell 2000 Index and the Nasdaq Electronics Components Index.

| | Cumulative Total Return | | | | | |
|---|---|---|---|---|---|---|
| | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 |
| Universal Display Corp. | 100.00 | 142.82 | 196.67 | 89.91 | 117.60 | 291.63 |
| Russell 2000 | 100.00 | 118.37 | 116.51 | 77.15 | 98.11 | 124.46 |
| NASDAQ Electronic Components | 100.00 | 94.09 | 110.35 | 56.37 | 90.71 | 103.28 |

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data has been derived from, and should be read in conjunction with, our Consolidated Financial Statements and the notes thereto, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this report.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Operating Results: | | | | | |
| Total revenue………. | $30,544,380 | $15,786,617 | $11,075,224 | $11,305,907 | $11,921,292 |
| Research and development expense…. | 21,695,139 | 21,122,156 | 19,220,653 | 18,360,509 | 17,150,673 |
| Selling, general and administrative expense… | 13,041,438 | 10,921,859 | 10,170,593 | 9,569,381 | 8,902,462 |
| Interest income……….. | 279,474 | 669,633 | 2,607,897 | 3,599,229 | 2,168,933 |
| Income tax benefit……… | 134,349 | 129,915 | 962,478 | 804,980 | 544,567 |
| Net loss………… | (19,917,410) | (20,505,320) | (19,139,736) | (15,975,841) | (15,186,804) |
| Net loss per share, basic and diluted…. | (0.53) | (0.56) | (0.53) | (0.47) | (0.49) |
| Balance Sheet Data: | | | | | |
| Total assets…… | $92,327,131 | $80,139,887 | $96,228,505 | $105,000,071 | $72,331,536 |
| Current liabilities…… | 25,044,687 | 13,965,959 | 15,769,505 | 12,790,531 | 14,382,673 |
| Long-tem debt………… | — | — | — | — | — |
| Shareholders' equity…….. | 57,429,519 | 59,627,526 | 76,714,463 | 89,215,957 | 54,382,363 |
| Other Financial Data: | | | | | |
| Working capital……… | $57,354,822 | $53,663,617 | $64,600,256 | $73,979,638 | $37,422,740 |
| Capital expenditures…… | 369,145 | 258,761 | 1,277,098 | 1,225,857 | 2,349,033 |
| Weighted average shares used in computing basic and diluted net loss | 37,567,374 | 36,479,331 | 35,932,372 | 33,759,581 | 30,855,297 |

| | | | | | |
|---|---|---|---|---|---|
| per common share…… | | | | | |
| Shares of common stock outstanding, end of period... | 38,936,571 | 36,818,440 | 36,131,981 | 35,563,201 | 31,385,408 |

ITEM 7. 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 section entitled "Selected Financial Data" in this report and our Consolidated Financial Statements and related notes to this report. This discussion and analysis contains forward-looking statements based on our current expectations, assumptions, estimates and projections. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these forward-looking statements as a result of certain factors, as more fully discussed in Item 1A of this report, entitled "Risk Factors."

Overview

We are a leader in the research, development and commercialization of organic light emitting diode, or OLED, technologies for use in flat panel display, solid-state lighting and other applications. Since 1994, we have been exclusively engaged, and expect to continue to be exclusively engaged, in funding and performing research and development activities relating to OLED technologies and materials, and in attempting to commercialize these technologies and materials. Our revenues are generated through contract research, sales of development and commercial chemicals, license fees and royalties, technology development and evaluation agreements, and commercialization assistance agreements. In the future, we anticipate that the revenues from licensing our intellectual property will become a more significant part of our revenue stream.

While we have made significant progress over the past few years developing and commercializing our family of OLED technologies (PHOLED, TOLED, FOLED, etc.) and materials, we have incurred significant losses and will likely continue to do so until our OLED technologies and materials become more widely adopted by product manufacturers. We have incurred significant losses since our inception, resulting in an accumulated deficit of $217,026,115 as of December 31, 2010.

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

- the timing of our receipt of license fees and royalties, as well as fees for future technology development and evaluation;
- the timing and volume of sales of our OLED materials for both commercial usage and evaluation purposes;
- the timing 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.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect our reported assets and liabilities, revenues and expenses, and other financial information. Actual results may differ significantly from our estimates under other assumptions and conditions.

We believe that our accounting policies related to revenue recognition and deferred license fees, stock-based compensation and accounting for warrants and our Supplemental Executive Retirement Plan, as described below, are our “critical accounting policies” as contemplated by the SEC. These policies, which have been reviewed with our Audit Committee, are discussed in greater detail below.

Revenue Recognition and Deferred License Fees

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.

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 license fees or 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 December 31, 2010, $8,098,178 was recorded as deferred license fees and deferred revenue, of which $3,366,667 may be recognized under license agreements that have not yet been executed or deemed effective.

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 Notes 2 and 10 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. 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 $10,659,755 at December 31, 2010.

The fair value of the stock warrant liability is determined using the Black-Scholes option pricing model using assumptions for certain components of the model, including expected volatility and expected annual dividend yield. 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 December 31, 2010. A change of 25 basis points in the discount rate would increase or decrease the expense on an annual basis by approximately $21,000.

Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

We had an operating loss of $10,226,297 for the year ended December 31, 2010, compared to an operating loss of $20,266,794 for 2009. The decrease in operating loss was due to:

- an increase in revenue of $14,757,763;

- offset by an increase in operating expenses of $4,717,266.

We had a net loss of $19,917,410 (or $0.53 per diluted share) for the year ended December 31, 2010, compared to a net loss of $20,505,320 (or $0.56 per diluted share) for 2009. The decrease in net loss was primarily due to:

- a decrease in operating loss of $10,040,497;

- offset by an increase in loss on stock warrant liability of $9,046,010.

Our revenues were $30,544,380 for the year ended December 31, 2010, compared to $15,786,617 for 2009.

Commercial revenue increased to $11,129,747 for the year ended December 31, 2010, compared to $6,118,099 for 2009. 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 $2,969,805 in commercial chemical revenue; and

- an increase of $1,909,509 in royalty revenue, which mainly represented royalties received under our patent license agreement with Samsung SMD.

We cannot accurately predict how long our material sales to Samsung SMD or other customers will continue, as they 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.

In 2010, we entered into three amendments to our patent license agreement with Samsung SMD. These amendments extended the term of that agreement for three-month periods, the latest extension being through March 31, 2011. As of the date of the filing, we are continuing to negotiate with Samsung SMD on the terms of a new business arrangement.

We filed for and were granted a five-year exemption on 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 2010, the withholding tax rate for royalty payments made by Samsung SMD was 16.5%.

Developmental revenue increased to $19,414,633 for the year ended December 31, 2010, compared to $9,668,518 for 2009. 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 primarily due to an increase of $8,633,192 in development chemical revenue, largely due to increased purchases of development chemicals by LG Display and other customers preparing for commercial OLED production.

Cost of chemicals sold increased to $887,509 for the year ended December 31, 2010, compared to $374,322 for the year ended December 31, 2009, based on the aforementioned increase in chemical sales.

We incurred research and development expenses of $21,695,139 for the year ended December 31, 2010, compared to $21,122,156 for 2009. The increase in research and development expenses was consistent with our expectations based on the growth of our business.

Selling, general and administrative expenses were $13,041,438 for the year ended December 31, 2010, compared to $10,921,859 for 2009. The increase in selling, general and administrative expenses was mainly due to:

- increased employee costs of $1,383,653, due primarily to increased salaries and stock compensation for certain executive officers; and

- expenses of $1,026,244 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 11 in the Notes to Consolidated Financial Statements.

Patent costs increased to $4,270,689 for the year ended December 31, 2010, compared to $3,239,795 for 2009. The increase is mainly due to the timing of prosecution and maintenance costs associated with a number of patents and patent applications, as well as the timing of costs for certain ongoing and new patent matters.

Interest income decreased to $279,474 for the year ended December 31, 2010, compared to $669,633 for 2009. The decrease was mainly attributable to decreased rates of return on investments during 2010, compared to rates of return during 2009. Due to current market conditions, we anticipate that these lower rates of return will continue for the foreseeable future.

At December 31, 2010, we had outstanding warrants to purchase 586,972 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 $10,077,065 non-cash loss on our consolidated statements of operations for the year ended December 31, 2010 compared to a $1,031,055 non-cash loss for the year ended December 31, 2009. 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.

During the year ended December 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. In past years, we completed our sales of state-related tax NOLs during the fourth quarter of the year. The income tax benefit was offset by foreign income taxes of $329,813 withheld in connection with our royalty revenues.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

We had an operating loss of $20,266,794 for the year ended December 31, 2009, compared to an operating loss of $22,662,914 for 2008. The decrease in operating loss was primarily due to:

- an increase in revenue of $4,711,393;
- offset by an increase in operating expenses of $2,315,273.

We had a net loss of $20,505,320 (or $0.56 per diluted share) for the year ended December 31, 2009, compared to a net loss of $19,139,736 (or $0.53 per diluted share) for 2008. The increase in net loss was primarily due to:

- a decrease in interest income of $1,938,264;
- a loss on stock warrant liability of $1,031,055; and
- a decrease in income tax benefit of $832,563;
- offset by a decrease in operating loss of $2,396,120.

Our revenues were $15,786,617 for the year ended December 31, 2009, compared to $11,075,224 for 2008.

Commercial revenue increased to $6,118,099 for the year ended December 31, 2009, compared to $5,630,758 for 2008. 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 due to the following:

- an increase of $764,717 in royalty revenue, which mainly represented royalties received under our patent license agreement with Samsung SMD;
- an increase of $525,010 for commercialization assistance under a business agreement executed in the fourth quarter of 2008; and
- an increase of $179,639 in license fees, primarily due to a patent license agreement we entered into with Konica Minolta in August 2008, a joint development agreement we previously entered into with a subsidiary of Konica Minolta, and two other agreements we entered into during the fourth quarter of 2008.

The overall increase in commercial revenue was offset by a decrease of $982,025 in commercial chemical revenue. The decrease resulted from a lower volume of OLED material sales to Samsung SMD. Our understanding is that this lower sales volume was due to Samsung SMD's implementation of manufacturing process efficiencies, improved materials utilization and more efficient and improved device structures, offset in part by increased production volume. We cannot accurately predict how long our material sales to Samsung SMD or other customers will continue, as they 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.

Developmental revenue increased to $9,668,518 for the year ended December 31, 2009, compared to $5,444,466 for 2008. 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 mainly due to the following:

- an increase of $1,814,734 in technology development revenue, primarily due to revenue recognition of a non-refundable payment of $1,500,000 that we received from Kyocera Corporation (Kyocera) during the third quarter of 2008;

- a increase of $1,558,254 in contract research revenue, principally to the timing of work performed and costs incurred in connection with several new and completed government contracts during 2009, as well as an overall increase in value of our government contracts; and

- an increase of $851,064 in development chemical revenue, mainly due to increased purchases of development chemicals by LG Display.

The $1,500,000 payment from Kyocera referenced above was for technical assistance previously provided under an evaluation agreement with a subsidiary of Kyocera established by it to conduct OLED research, development, manufacturing and sales activities. We had previously classified this payment as deferred revenue because it was creditable against a portion of the upfront fee under our license agreement with Kyocera. The license agreement was to become effective upon notice from Kyocera given on or before December 31, 2009. In September 2009, we received notification from Kyocera that it was terminating the evaluation agreement because its OLED subsidiary was being dissolved on September 30, 2009. Based on this notification, we determined and confirmed that Kyocera would not be sending us a notice declaring the license agreement effective. As a result of this development, we recorded the $1,500,000 payment as technology development revenue in the third quarter of 2009.

We incurred research and development expenses of $21,122,156 for the year ended December 31, 2009, compared to $19,220,653 for 2008. The increase was mainly due to:

- increased costs of $899,312 incurred under our agreement with PPG Industries;

- increased costs of $631,931 associated with subcontractors and consultants under our government contracts;

- increased employee costs of $428,723; and

- increased costs of $169,225 incurred in connection with stock compensation to members of our Scientific Advisory Board.

The increase in research and development expenses was offset by an overall decrease of $227,688 in operating costs associated with our Ewing facility.

Selling, general and administrative expenses were $10,921,859 for the year ended December 31, 2009, compared to $10,170,593 for 2008. Selling, general and administrative expenses remained relatively consistent over these corresponding periods.

Interest income decreased to $669,633 for the year ended December 31, 2009, compared to $2,607,897 for 2008. The decrease was mainly attributable to decreased rates of return on investments during 2009, compared to rates of return during 2008, as well as a decrease in the amount of cash available for investment. Due to current market conditions, we anticipate that these lower rates of return will continue for the foreseeable future.

At January 1, 2009, we had outstanding warrants to purchase 838,446 shares of common stock, which warrants contain a "down-round" provision. On January 1, 2009, the fair value of these warrants of $2,689,110 was reclassified from equity to a liability upon the adoption of certain revisions to ASC 815. The change in fair value of these warrants during 2009 resulted in a $1,031,055 non-cash loss on our statement of operations for the year ended December 31, 2009. 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.

During 2009, we received federal cash refunds of $104,428 related to research and development credits. We also received state cash refunds of $25,487 from claims for overpaid New Jersey Alternative Minimum Assessment tax for taxable years 2003 to 2006. During 2008, we sold approximately $12.5 million of our state-related income tax net operating losses (NOLs) under the New Jersey Technology Tax Certificate Transfer Program. In 2008, we received proceeds of $962,478 from our sale of these NOLs and research and development tax credits, and we recorded these proceeds as an income tax benefit. No such proceeds were received during 2009; however, we received $464,162 in early 2010 for the sale of $3.8 million of our state-related NOLs and $194,088 of our research and development tax credits under the 2009 program.

Liquidity and Capital Resources

As of December 31, 2010, we had cash and cash equivalents of $20,368,852 and short-term investments of $52,794,545, for a total of $73,163,397. This compares to cash and cash equivalents of $22,701,126 and short-term investments of $41,172,955, for a total of $63,874,081, as of December 31, 2009. The increase in cash and cash equivalents and short-term investments of $9,289,316 was primarily due to the receipt of proceeds from the exercise of options and warrants, offset by cash used in operations.

Cash used in operating activities was $4,200,138 for 2010, compared to $14,610,208 for 2009. The decreased usage of cash in operating activities was mainly due to the following:

- a decrease in net loss after excluding the impact of non-cash items of $11,204,047; and
- the impact of the timing of payment of accounts payable and accrued expenses of $2,598,881;
- offset by the impact of the timing of receipt of accounts receivable of $3,009,807.

Cash provided by financing activities was $13,697,681 for 2010, compared to $963,765 for the same period in 2009. For the year ended December 31, 2010, we received proceeds of $14,618,569 from the exercise of options and warrants to purchase shares of our common stock and $245,684 in proceeds related to our Employee Stock Purchase Plan (ESPP), compared to proceeds of $1,702,138 from the exercise of options and warrants to purchase shares of our common stock and $130,184 in proceeds related to our ESPP for the same period in 2009.

Working capital was $57,354,822 as of December 31, 2010, which included a stock warrant liability of $10,659,755, compared to $53,663,617 as of December 31, 2009. The stock warrant liability will either expire or be exercised by August 2011, resulting in no cash outlay on our part. Working capital, excluding the stock warrant liability, was $68,014,577 as of December 31, 2010. The increase in working capital as of December 31, 2010, compared to December 31, 2009, excluding the stock warrant liability, was mainly due to:

- increased cash, cash equivalents and short-term investments;
- an increase in accounts receivable; and
- a reduction of the current portion of deferred license fees and deferred revenues.

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 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.

Contractual Obligations

As of December 31, 2010, we had the following contractual commitments:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Estimated retirement plan benefit payments | $20,596,000 | $— | $662,000 | $934,000 | $19,000,000 |
| Sponsored research obligation | 5,116,668 | 2,515,390 | 2,601,278 | — | — |
| Minimum royalty obligation (1) | 500,000 | 100,000 | 200,000 | 200,000 | 100,000/year(1) |
| Total (2) | $26,212,668 | $2,615,390 | $3,463,278 | $1,134,000 | $19,000,000 |

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(1) Under the 1997 License Agreement, we are obligated to pay Princeton minimum royalties of $100,000 per year until such time as the agreement is no longer in effect. The agreement has no scheduled expiration date.

(2) See Note 12 to the Consolidated Financial Statements for discussion of obligations upon termination of employment of executive officers as a result of a change in control of the Company.

Off-Balance Sheet Arrangements

As of December 31, 2010, we had no off-balance sheet arrangements in the nature of guarantee contracts, retained or contingent interests in assets transferred to unconsolidated entities (or similar arrangements serving as credit, liquidity or market risk support to unconsolidated entities for any such assets), or obligations (including contingent obligations) arising out of variable interests in unconsolidated entities providing financing, liquidity, market risk or credit risk support to us, or that engage in leasing, hedging or research and development services with us.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are addressed in Note 2 in the Notes to Consolidated Financial Statements.

ITEM 7A. 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 “Fair Value Measurements” in Note 2 to the consolidated financial statements included herein. We invest in investment grade financial instruments to reduce our exposure related to investments. Our primary market risk exposure with regard to such financial instruments is to changes in interest rates, which would impact interest income earned on investments. A change in interest rates of one point would not have a material impact on our operating results and cash flows.

We record as a liability the fair value of warrants to purchase 586,972 shares of our common stock. The fair value of the stock warrant liability ($10,659,755 at December 31, 2010) is determined using the Black-Scholes option valuation model and is therefore sensitive to changes in the stock price and volatility of our common stock. Our primary market risk exposure to the stock warrant liability is to changes in the 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.

Substantially all our revenue is derived from outside of North America. All revenue is primarily denominated in U.S. dollars and therefore we bear no significant foreign exchange risk.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements and the relevant notes to those statements are attached to this report beginning on page F-1.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. 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 December 31, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. However, a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The report of management on our internal control over financial reporting and the associated attestation report of our independent registered public accounting firm are set forth in Item 8 of this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this item is set forth in our definitive Proxy Statement for the 2011 Annual Meeting of Shareholders, which is to be filed with the Securities and Exchange Commission no later than April 30, 2011, (our Proxy Statement), and which is incorporated herein by reference. Information regarding our executive officers is included at the end of Part I of this report.

## ITEM 11. EXECUTIVE COMPENSATION

Information with respect to this item is set forth in our Proxy Statement, and is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to this item is set forth in our Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information with respect to this item is set forth in our Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to this item is set forth in our Proxy Statement, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements:



(2) Financial Statement Schedules:

None.

(3) Exhibits:

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

| Exhibit Number | Description |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation of the registrant (1) |
| 3.2 | Amendment to Amended and Restated Articles of Incorporation of the registrant (2) |
| 3.3 | Bylaws of the registrant (3) |
| 10.1# | Amended and Restated Change in Control Agreement between the registrant and Sherwin I. Seligsohn, dated as of November 4, 2008 (4) |
| 10.2# | |

| | |
|---|---|
| | Amended and Restated Change in Control Agreement between the registrant and Steven V. Abramson, dated as of November 4, 2008 (4) |
| 10.3# | Amended and Restated Change in Control Agreement between the registrant and Sidney D. Rosenblatt, dated as of November 4, 2008 (4) |
| 10.4# | Amended and Restated Change in Control Agreement between the registrant and Julia J. Brown, dated as of November 4, 2008 (4) |

10.5# Amended and Restated Change in Control Agreement between the registrant and Janice K. Mahon, dated as of November 4, 2008 (4)

10.6# Second Amended and Restated Change in Control Agreement between the registrant and Michael G. Hack, dated as of January 11, 2010 (5)

10.7# Non-Competition and Non-Solicitation Agreement between the registrant and Sherwin I. Seligsohn, dated as of February 23, 2007 (6)

10.8# Non-Competition and Non-Solicitation Agreement between the registrant and Steven V. Abramson, dated as of January 26, 2007 (6)

10.9# Non-Competition and Non-Solicitation Agreement between the registrant and Sidney D. Rosenblatt, dated as of February 7, 2007 (6)

10.10# Non-Competition and Non-Solicitation Agreement between the registrant and Julia J. Brown, dated as of February 5, 2007 (6)

10.11# Non-Competition and Non-Solicitation Agreement between the registrant and Janice K. Mahon, dated as of February 23, 2007 (4)

10.12# Non-Competition and Non-Solicitation Agreement between the registrant and Michael G. Hack, dated as of February 5, 2007 (5)

10.13# Equity Retention Agreement between the registrant and Steven V. Abramson, dated as of March 18, 2010 (7)

10.14# Equity Retention Agreement between the registrant and Sidney D. Rosenblatt, dated as of March 18, 2010 (7)

10.15# Supplemental Executive Retirement Plan, dated as of April 1, 2010 (7)

10.16 Equity Compensation Plan, dated as of June 29, 2006 (8)

10.17 Sponsored Research Agreement between the registrant and the University of Southern California, dated as of May 1, 2006 (9)

10.18 Amendment No. 1 to the Sponsored Research Agreement between the registrant and the University of Southern California, dated as of May 1, 2006 (4)

10.19 Amendment No. 2 to the Sponsored Research Agreement between the registrant and the University of Southern California, dated as of May 7, 2009 (10)

10.20 1997 Amended License Agreement among the registrant, The Trustees of Princeton University and the University of Southern California, dated as of October 9, 1997 (11)

10.21 Amendment #1 to the Amended License Agreement among the registrant, the Trustees of Princeton University and the University of Southern California, dated as of August 7, 2003 (12)

10.22 Amendment #2 to the Amended License Agreement among the registrant, the Trustees of Princeton University, the University of Southern California and the Regents of the University of Michigan, dated as of January 1, 2006 (12)

10.23 Termination, Amendment and License Agreement by and among the registrant, PD-LD, Inc., Dr. Vladimir S. Ban, and The Trustees of Princeton University, dated as of July 19, 2000 (13)

10.24 Letter of Clarification of UDC/GPEC Research and License Arrangements between the registrant and Global Photonic Energy Corporation, dated as of June 4, 2004 (6)

10.25+ OLED Materials Supply and Service Agreement between the registrant and PPG Industries, Inc., dated as of July 29, 2005 (14)

10.26 Amendment No. 1 to the OLED Materials Supply and Service Agreement between the registrant and PPG Industries, Inc., dated as of January 4, 2008 (15)

10.27+ OLED Patent License Agreement between the registrant and Samsung SDI Co., Ltd., dated as of April 19, 2005 (16)

10.28+ OLED Supplemental License Agreement between the registrant and Samsung SMD Co., Ltd., dated as of April 19, 2005 (16)

10.29+ Amendment No. 1 to the OLED Patent License Agreement between the registrant and Samsung SDI Co., Ltd., dated as of July 30, 2008 (17)

10.30 Agreement and Consent to Assignment and Assumption of Patent License Agreement between the registrant and Samsung SDI Co., Ltd., dated as of February 4, 2009 (18)

10.31 Amendment No. 2 to the OLED Patent License Agreement between the registrant and Samsung SDI Co., Ltd., dated as of July 12, 2010 (19)

10.32* Amendment No. 3 to the OLED Patent License Agreement between the registrant and Samsung SDI Co., Ltd., dated as of October 28, 2010

10.33* Amendment No. 4 to the OLED Patent License Agreement between the registrant and Samsung SDI Co., Ltd., dated as of December 17, 2010

10.34+ Settlement and License Agreement between the registrant and Seiko Epson Corporation, dated as of July 31, 2006 (20)

10.35+ Amendment No. 1 to the Settlement and License Agreement between the registrant and Seiko Epson Corporation, dated as of March 30, 2009 (18)

10.36+ Commercial Supply Agreement between the registrant and LG.Philips LCD Co., Ltd. (now known as LG Display Co., Ltd.), dated as of May 23, 2007 (21)

10.37 Amendment No. 1 to the Commercial Supply Agreement between the registrant and LG Display Co., Ltd., dated as of November 21, 2008 (4)

10.38 Amendment No. 2 to the Commercial Supply Agreement between the registrant and LG Display Co., Ltd., dated as of August 11, 2009 (22)

10.39 Amendment No. 3 to the Commercial Supply Agreement between the registrant and LG Display Co., Ltd., dated as of March 10, 2010 (7)

10.40 Amendment No. 4 to the Commercial Supply Agreement between the registrant and LG Display Co., Ltd., dated as of July 23, 2010 (19)

10.41+ OLED Technology License Agreement between the registrant and Konica Minolta Holdings, Inc., dated as of August 11, 2008 (17)

10.42+ OLED Technology License Agreement between the registrant and Showa Denko K.K., dated as of December 17, 2009 (23)

21 * Subsidiaries of the registrant

23.1 * Consent of KPMG LLP

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.)

Explanation of footnotes to listing of exhibits:

* Filed herewith.
** Furnished herewith.
\# Management contract or compensatory plan or arrangement.
\+ Confidential treatment has been accorded to certain portions of this exhibit pursuant to Rule 406 under the Securities Act of 1933, as amended, or Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

(1) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed with the SEC on August 9, 2010.

(2) Filed as an Exhibit to a Current Report on Form 8-K, filed with the SEC on December 21, 2007.

(3) Filed as an Exhibit to the Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 1, 2004.

(4) Filed as an Exhibit to the Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 12, 2009.

(5) Filed as an Exhibit to the Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 15, 2010.

(6) Filed as an Exhibit to the Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 15, 2007.

(7) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed with the SEC on May 10, 2010.

(8) Filed as an Exhibit to the Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders, filed with the SEC on April 27, 2006.

(9) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, filed with the SEC on August 9, 2006.

(10) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, filed with the SEC on August 10, 2009.

(11) Filed as an Exhibit to the Annual Report on Form 10K-SB for the year ended December 31, 1997, filed with the SEC on March 31, 1998.

(12) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the SEC on November 10, 2003.

(13) Filed as an Exhibit to the amended Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, filed with the SEC on November 20, 2001.

(14) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed with the SEC on November 7, 2005.

(15) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, filed with the SEC on May 8, 2008.

(16) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, filed with the SEC on August 9, 2005.

(17) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, filed with the SEC on November 6, 2008.

(18) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, filed with the SEC on May 7, 2009.

(19) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 4, 2010.

(20) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, filed with the SEC on November 6, 2006.

(21) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed with the SEC on August 9, 2007.

(22) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, filed with the SEC on November 9, 2009.

(23) Filed as an Exhibit to the Annual Report on Form 10-K for the year ended December 31, 2009, as amended, filed with the SEC on June 23, 2010.

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.

(b) The exhibits required to be filed by us with this report are listed above.
(c) The consolidated financial statement schedules required to be filed by us with this report are listed above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

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

Date: March 15, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name | Title | Date |
|---|---|---|
| /s/ Sherwin I. Seligsohn<br>Sherwin I. Seligsohn | Founder and Chairman of the Board of Directors | March 15, 2011 |
| /s/ Steven V. Abramson<br>Steven V. Abramson | President, Chief Executive Officer and Director (principal executive officer) | March 15, 2011 |
| /s/ Sidney D. Rosenblatt<br>Sidney D. Rosenblatt | Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director (principal financial and accounting officer) | March 15, 2011 |
| /s/ Leonard Becker<br>Leonard Becker | Director | March 15, 2011 |
| /s/ Elizabeth H. Gemmill<br>Elizabeth H. Gemmill | Director | March 15, 2011 |
| /s/ C. Keith Hartley<br>C. Keith Hartley | Director | March 15, 2011 |
| /s/ Lawrence Lacerte<br>Lawrence Lacerte | Director | March 15, 2011 |

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2010 based upon criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that the Company's internal control over financial reporting was effective as of December 31, 2010, based on the criteria in Internal Control-Integrated Framework issued by COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2010, has been attested to by KPMG LLP, an independent registered public accounting firm, as stated in its report which appears on the following page.

| | |
|---|---|
| Steven V. Abramson | Sidney D. Rosenblatt |
| President and Chief Executive Officer | Executive Vice President and Chief Financial Officer |

March 15, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Universal Display Corporation:

We have audited Universal Display Corporation’s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Universal Display Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.  A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.  Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Universal Display Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Universal Display Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders’ equity and comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 15, 2011 expressed an unqualified opinion on those consolidated financial statements .

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 15, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Universal Display Corporation:

We have audited the accompanying consolidated balance sheets of Universal Display Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Display Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Universal Display Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 15, 2011

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 20,368,852 | $ 22,701,126 |
| Short-term investments | 52,794,545 | 41,172,955 |
| Accounts receivable | 7,247,873 | 3,344,255 |
| Other current assets | 1,988,239 | 411,240 |
| Total current assets | 82,399,509 | 67,629,576 |
| PROPERTY AND EQUIPMENT, net | 9,711,093 | 11,048,763 |
| ACQUIRED TECHNOLOGY, net | — | 1,234,272 |
| OTHER ASSETS | 216,529 | 227,276 |
| TOTAL ASSETS | $ 92,327,131 | $ 80,139,887 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 2,155,489 | $ 1,275,695 |
| Accrued expenses | 6,906,289 | 5,238,870 |
| Deferred license fees | 4,028,486 | 6,047,467 |
| Deferred revenue | 1,294,668 | 1,403,927 |
| Stock warrant liability (Note 2) | 10,659,755 | — |
| Total current liabilities | 25,044,687 | 13,965,959 |
| DEFERRED LICENSE FEES | 2,775,024 | 2,826,237 |
| STOCK WARRANT LIABILITY (Note 2) | — | 3,720,165 |
| RETIREMENT PLAN BENEFIT LIABILITY | 7,077,901 | — |
| Total liabilities | 34,897,612 | 20,512,361 |
| COMMITMENTS AND CONTINGENCIES (Note 12) | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred Stock, par value $0.01 per share, 5,000,000 shares authorized, 200,000 shares of Series A Nonconvertible Preferred Stock issued and outstanding (liquidation | 2,000 | 2,000 |

| | | | | |
|---|---|---|---|---|
| value of $7.50 per share or $1,500,000) | | | | |
| Common Stock, par value $0.01 per share, 100,000,000 shares authorized, 38,936,571 and 36,818,440 shares issued and outstanding at December 31, 2010 and 2009, respectively | | 389,366 | | 368,184 |
| Additional paid-in capital | | 280,102,227 | | 256,340,530 |
| Accumulated deficit | | (217,026,115) | | (197,108,705) |
| Accumulated other comprehensive (loss) income | | (6,037,959) | | 25,517 |
| Total shareholders' equity | | 57,429,519 | | 59,627,526 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ | 92,327,131 | $ | 80,139,887 |

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

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| REVENUE: | | | |
| Commercial revenue | $ 11,129,747 | $ 6,118,099 | $ 5,630,758 |
| Developmental revenue | 19,414,633 | 9,668,518 | 5,444,466 |
| Total revenue | 30,544,380 | 15,786,617 | 11,075,224 |
| OPERATING EXPENSES: | | | |
| Cost of chemicals sold | 887,509 | 374,322 | 600,224 |
| Research and development | 21,695,139 | 21,122,156 | 19,220,653 |
| Selling, general and administrative | 13,041,438 | 10,921,859 | 10,170,593 |
| Patent costs | 4,270,689 | 3,239,795 | 3,348,851 |
| Royalty and license expense | 875,902 | 395,279 | 397,817 |
| Total operating expenses | 40,770,677 | 36,053,411 | 33,738,138 |
| Operating loss | (10,226,297) | (20,266,794) | (22,662,914) |
| INTEREST INCOME | 279,474 | 669,633 | 2,607,897 |
| INTEREST EXPENSE | (27,871) | (7,019) | (47,197) |
| LOSS ON STOCK WARRANT LIABILITY | (10,077,065) | (1,031,055) | — |
| LOSS BEFORE INCOME TAX BENEFIT | (20,051,759) | (20,635,235) | (20,102,214) |
| INCOME TAX BENEFIT | 134,349 | 129,915 | 962,478 |
| NET LOSS | $ (19,917,410) | $ (20,505,320) | $ (19,139,736) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | $ (0.53) | $ (0.56) | $ (0.53) |
| WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE | 37,567,374 | 36,479,331 | 35,932,372 |

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

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS

| | Series A Nonconvertible Preferred Stock | | Common Stock | | Additional Paid-in Capital |
|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | |
| BALANCE, JANUARY 1, 2008 | 200,000 | $ 2,000 | 35,563,201 | $ 355,632 | $ 250,240,994 |
| Net loss | — | — | — | — | — |
| Unrealized gain on available-for-sale securities | — | — | — | — | — |
| | | | | | |
| Comprehensive loss | | | | | |
| Exercise of common stock options and warrants | — | — | 352,864 | 3,529 | 2,403,631 |
| Stock-based employee compensation, net of shares withheld for employee taxes | — | — | 86,340 | 863 | 2,085,315 |
| Stock-based non-employee compensation | — | — | 174 | 2 | 6,099 |
| Issuance of common stock to Board of Directors and Scientific Advisory Board | — | — | 42,932 | 429 | 744,558 |
| Issuance of common stock in connection with materials and license agreements | — | — | 86,470 | 865 | 1,216,252 |
| BALANCE, DECEMBER 31, 2008 | 200,000 | 2,000 | 36,131,981 | 361,320 | 256,696,849 |
| Net loss | — | — | — | — | — |
| Unrealized loss on available-for-sale securities | — | — | — | — | — |
| | | | | | |
| Comprehensive loss | | | | | |
| | — | — | — | — | (6,557,928 ) |

| | | | | | |
|---|---|---|---|---|---|
| Cumulative effect of the adoption of revisions to ASC 815, see Note 2 | | | | | |
| Exercise of common stock options and warrants, net of tendered shares | — | — | 340,279 | 3,403 | 1,698,735 |
| Stock-based employee compensation, net of shares withheld for employee taxes | — | — | 147,078 | 1,471 | 2,446,034 |
| Stock-based non-employee compensation | — | — | 450 | 4 | 7,007 |
| Issuance of common stock to Board of Directors and Scientific Advisory Board | — | — | 61,742 | 617 | 750,298 |
| Issuance of common stock in connection with materials and license agreements | — | — | 122,854 | 1,228 | 1,169,492 |
| Issuance of common stock to employees under an Employee Stock Purchase Plan | — | — | 14,056 | 141 | 130,043 |
| BALANCE, DECEMBER 31, 2009 | 200,000 | 2,000 | 36,818,440 | 368,184 | 256,340,530 |
| Net loss | — | — | — | — | — |
| Other comprehensive (loss) income: | | | | | |
| Unrealized loss on available-for-sale securities | — | — | — | — | — |
| Initial prior service cost for retirement plan | — | — | — | — | — |
| Amortization of prior service cost for retirement plan | — | — | — | — | — |
| Actuarial loss on retirement plan | — | — | — | — | — |
| Comprehensive loss | | | | | |
| Exercise of common stock options and | — | — | 1,304,654 | 13,047 | 17,742,998 |

| | | | | | |
|---|---|---|---|---|---|
| warrants, net of tendered shares | | | | | |
| Stock-based employee compensation, net of shares withheld for employee taxes | — | — | 651,384 | 6,514 | 3,125,844 |
| Stock-based non-employee compensation | — | — | 491 | 5 | 47,217 |
| Issuance of common stock to Board of Directors and Scientific Advisory Board | — | — | 61,946 | 619 | 1,346,331 |
| Issuance of common stock in connection with materials and license agreements | — | — | 80,073 | 801 | 1,253,819 |
| Issuance of common stock to employees under an Employee Stock Purchase Plan | — | — | 19,583 | 196 | 245,488 |
| BALANCE, DECEMBER 31, 2010 | 200,000 | $ 2,000 | 38,936,571 | $ 389,366 | $ 280,102,227 |

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

(Continued)

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS
(Continued)

| | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|
| BALANCE, JANUARY 1, 2008 | $ (161,332,467) | $ (50,202) | $ 89,215,957 |
| | | | |
| Net loss | (19,139,736) | — | (19,139,736) |
| Unrealized gain on available-for-sale securities | — | 176,699 | 176,699 |
| | | | |
| Comprehensive loss | | | (18,963,037) |
| Exercise of common stock options and warrants | — | — | 2,407,160 |
| Stock-based employee compensation, net of shares withheld for employee taxes | — | — | 2,086,178 |
| Stock-based non-employee compensation | — | — | 6,101 |
| Issuance of common stock to Board of Directors and Scientific Advisory Board | — | — | 744,987 |
| Issuance of common stock in connection with materials and license agreements | — | — | 1,217,117 |
| | | | |
| BALANCE, DECEMBER 31, 2008 | (180,472,203) | 126,497 | 76,714,463 |
| | | | |
| Net loss | (20,505,320) | — | (20,505,320) |
| Unrealized loss on available-for-sale securities | — | (100,980) | (100,980) |
| | | | |
| Comprehensive loss | | | (20,606,300) |
| Cumulative effect of the adoption of revisions to ASC 815, see Note 2 | 3,868,818 | — | (2,689,110) |
| Exercise of common stock options and warrants, net of tendered shares | — | — | 1,702,138 |
| Stock-based employee compensation, net of shares withheld for employee taxes | — | — | 2,447,505 |
| Stock-based non-employee compensation | — | — | 7,011 |
| Issuance of common stock to Board of Directors and Scientific Advisory | — | — | 750,915 |

| | | | |
|---|---|---|---|
| Board | | | |
| Issuance of common stock in connection with materials and license agreements | — | — | 1,170,720 |
| Issuance of common stock to employees under an Employee Stock Purchase Plan | — | — | 130,184 |
| | | | |
| BALANCE, DECEMBER 31, 2009 | (197,108,705) | 25,517 | 59,627,526 |
| | | | |
| Net loss | (19,917,410) | — | (19,917,410) |
| Other comprehensive (loss) income: | | | |
| Unrealized loss on available-for-sale securities | — | (11,819) | (11,819) |
| Initial prior service cost for retirement plan | — | (5,611,079) | (5,611,079) |
| Amortization of prior service cost for retirement plan | — | 438,366 | 438,366 |
| Actuarial loss on retirement plan | — | (878,944) | (878,944) |
| | | | |
| Comprehensive loss | | | (25,980,886) |
| Exercise of common stock options and warrants, net of tendered shares | — | — | 17,756,045 |
| Stock-based employee compensation, net of shares withheld for employee taxes | — | — | 3,132,358 |
| Stock-based non-employee compensation | — | — | 47,222 |
| Issuance of common stock to Board of Directors and Scientific Advisory Board | — | — | 1,346,950 |
| Issuance of common stock in connection with materials and license agreements | — | — | 1,254,620 |
| Issuance of common stock to employees under an Employee Stock Purchase Plan | — | — | 245,684 |
| | | | |
| BALANCE, DECEMBER 31, 2010 | $ (217,026,115) | $ (6,037,959) | $ 57,429,519 |

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

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | $ (19,917,410) | $ (20,505,320) | $ (19,139,736) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Amortization of deferred license fees and deferred revenue | (4,890,555) | (3,986,490) | (1,527,525) |
| Depreciation | 1,706,816 | 2,069,626 | 1,943,184 |
| Amortization of intangibles | 1,234,272 | 1,695,072 | 1,695,072 |
| Amortization of premium and discount on investments, net | (172,737) | (426,065) | (1,044,499) |
| Stock-based employee compensation | 4,553,713 | 3,156,420 | 3,663,575 |
| Stock-based non-employee compensation | 47,222 | 7,011 | 5,110 |
| Non-cash expense under materials and license agreements | 1,173,347 | 1,170,039 | 1,232,668 |
| Stock-based compensation to Board of Directors and Scientific Advisory Board | 1,332,712 | 755,294 | 745,016 |
| Loss on stock warrant liability | 10,077,065 | 1,031,055 | — |
| Retirement plan benefit expense | 1,026,244 | — | — |
| (Increase) decrease in assets: | | | |
| Accounts receivable | (3,903,618) | (893,811) | (55,028) |
| Other current assets | (1,577,000) | 53,877 | 249,979 |
| Other assets | 10,747 | (157,504) | 10,000 |
| Increase (decrease) in liabilities: | | | |
| Accounts payable and accrued expenses | 2,387,942 | (210,939) | 621,440 |
| Deferred license fees | 792,423 | — | 2,000,000 |
| Deferred revenue | 1,918,679 | 1,631,527 | 1,815,580 |
| Net cash used in operating activities | (4,200,138) | (14,610,208) | (7,785,164) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of property and equipment | (369,145) | (258,761) | (1,277,098) |
| Purchases of short-term investments | (91,393,656) | (61,345,251) | (96,859,458) |

| | | | |
|---|---|---|---|
| Proceeds from sale of short-term investments | 79,932,984 | 69,630,000 | 98,737,000 |
| | | | |
| Net cash (used in) provided by investing activities | (11,829,817) | 8,025,988 | 600,444 |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of common stock | 245,684 | 130,184 | — |
| Proceeds from the exercise of common stock options and warrants | 14,618,569 | 1,702,138 | 2,407,160 |
| Payment of withholding taxes related to stock-based employee compensation | (1,166,572) | (868,557) | (771,555) |
| | | | |
| Net cash provided by financing activities | 13,697,681 | 963,765 | 1,635,605 |
| | | | |
| DECREASE IN CASH AND CASH EQUIVALENTS | (2,332,274) | (5,620,455) | (5,549,115) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 22,701,126 | 28,321,581 | 33,870,696 |
| | | | |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 20,368,852 | $ 22,701,126 | $ 28,321,581 |

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

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BUSINESS:

Universal Display Corporation (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) (Note 3), Motorola Solutions, Inc. (f/k/a Motorola, Inc.) (Motorola) and PPG Industries, Inc. (PPG Industries) (Note 7), the Company has established a significant portfolio of proprietary OLED technologies and materials.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements include the accounts of Universal Display Corporation and its wholly owned subsidiaries, UDC, Inc., Universal Display Corporation Hong Kong, Ltd. and Universal Display Corporation Korea, Inc. All intercompany transactions and accounts have been eliminated.

Management's Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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. The estimates made are principally in the area of revenue recognition for license agreements, useful life of acquired technology, stock-based compensation and the valuation of stock warrant and retirement plan benefit liabilities. Actual results could differ from those estimates.

Cash, Cash Equivalents and Short-term Investments

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Company classifies its remaining short-term investments 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 December 31, 2010 and 2009 consist of the following:

| Investment Classification | Amortized Cost | Unrealized Gains | Unrealized (Losses) | Aggregate Fair Market Value |
|---|---|---|---|---|
| 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 |
| December 31, 2009- | | | | |
| Certificates of deposit | $ 8,688,457 | $ 1,633 | $ (7,245 ) | $ 8,682,845 |
| U.S. Government bonds | 32,458,981 | 31,140 | (11 ) | 32,490,110 |
| | $ 41,147,438 | $ 32,773 | $ (7,256 ) | $ 41,172,955 |

All short-term investments held at December 31, 2010 will mature within one year.

Trade Accounts Receivable

Trade accounts receivable are stated at the amount the Company expects to collect and do not bear interest. The Company considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms.  The Company's accounts receivable balance is a result of chemical sales, royalties, license fees, and U.S. government contract revenues.  These receivables have historically been paid timely.  Due to the nature of the accounts receivable balance, the Company believes there is no significant risk of collection.  If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, allowances for doubtful accounts would be required.  The Company recorded no bad debt expense in the years ending December 31, 2010, 2009 and 2008.

Fair Value Measurements

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 |

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

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

liability

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 years ended December 31, which has been classified in Level 3 in the fair value hierarchy:

| | 2010 | 2009 |
|---|---|---|
| Fair value of stock warrant liability, beginning of year | $ 3,720,165 | $ — |
| Cumulative effect of reclassification of stock warrant liability under ASC 815, see "Stock Warrant Liability" below | — | 2,689,110 |
| Loss for period | 10,077,065 | 1,031,055 |
| Warrants exercised | (3,137,475 ) | — |
| | | |
| Fair value of stock warrant liability, end of year | $ 10,659,755 | $ 3,720,165 |

The fair value of the stock warrant liability was determined using the Black-Scholes option pricing model with the following inputs at December 31:

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| | 2010 | 2009 |
|---|---|---|
| Contractual life (years) | 0.6 | 0.1-1.6 |
| Expected volatility | 55.6 % | 40.5-76.7 % |
| Risk-free interest rate | 0.2 % | 0.1-0.8 % |
| Annual dividend yield | — | — |

Fair Value of Financial Instruments

The carrying values of accounts receivable, other current assets, and accounts payable approximate fair value in the accompanying financial statements due to the short-term nature of those instruments. The Company's other financial instruments, which include cash equivalents, short-term investments and stock warrant liability are carried at fair value as noted above.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful life of 30 years for building, 15 years for building improvements, and three to seven years for office and lab equipment and furniture and fixtures. Repair and maintenance costs are charged to expense as incurred. Additions and betterments are capitalized.

Impairment of Long-Lived Assets

Company management continually evaluates whether events or changes in circumstances might indicate that the remaining estimated useful life of long-lived assets may warrant revision, or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted cash flows in measuring whether the long-lived asset should be written down to fair value. Measurement of the amount of impairment would be based on generally accepted valuation methodologies, as deemed appropriate. As of December 31, 2010, Company management believed that no revision to the remaining useful lives or write-down of the Company's long-lived assets was required. No such revisions were required for the years ended December 31, 2009 or 2008.

Stock Warrant Liability

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 and provide guidance related to the determination of whether these instruments should be classified as equity or debt. If an instrument is classified as debt, it is valued at fair value, and this value is re-measured on an ongoing basis, with changes recorded on the statement of operations in each reporting period. At January 1, 2009, the Company had warrants to purchase shares of common stock outstanding containing a "down-round" provision. In accordance with the guidance in these revised provisions, the fair value of these warrants was required to be reported as a liability, with the changes of fair value recorded on the statement of operations. As such, on January 1, 2009, the fair value of these warrants at that date of $2,689,110 was reclassified from equity to a liability. As a result of the change, the original fair value of the warrants at the date of issuance of $6,557,928 was recorded as a reduction to additional paid-in capital. In addition, accumulated deficit, as of January 1, 2009, decreased to reflect the cumulative effect of the adoption of these provisions. The Company continues to report the warrants as a liability, with changes in fair value recorded in the statement of operations, until such time as the warrants are exercised or expire. The change in fair value of the warrants resulted in a loss on the statement of operations of $10,777,065 and $1,031,055 for the years ended December 31, 2010 and 2009, respectively. The fair value of the remaining outstanding warrants which expire in August 2011, was $10,659,755 at December 31, 2010 and is reflected as a current liability in the accompanying balance sheet.

The fair value of the stock warrant liability is determined using the Black-Scholes option pricing model as noted above in “Fair Value Measurements”. Although we use our best estimates when setting these assumptions, changes in assumptions could cause significant adjustments to the fair value of the stock warrant liability, which are recorded as a gain or loss on the statement of operations.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period, excluding restricted stock awards for which the restrictions have not lapsed. Diluted net loss per common share reflects the potential dilution from the exercise or conversion of securities into common stock, the impact of unvested restricted stock awards and restricted stock units and shares to be issued under the Employee Stock Purchase Plan (ESPP). For the years ended December 31, 2010, 2009 and 2008, the effects of the exercise of the combined outstanding stock options and warrants and unvested restricted stock awards and units of 3,165,048, 4,299,598 and 4,756,274, respectively, and the impact of shares to be issued under the ESPP, which was minor, were excluded from the calculation of diluted net loss per common share as the impact would have been anti-dilutive.

Revenue Recognition and Deferred License Fees

Commercial revenue relates to the incorporation of OLED technologies and materials into the Company's customers' commercial products, and includes commercial chemical revenue, royalty and license revenues, and commercialization assistance revenue. Developmental revenue relates to OLED technology and material development activities for which the Company is paid, and includes contract research revenue, development chemical revenue and technology development revenue.

Commercial chemical revenue represents revenues from sales of OLED materials to manufacturers for the production of commercial products. This revenue is recognized at the time of shipment or at time of delivery, and passage of title, depending upon the contractual agreement between the parties.

The Company has received non-refundable advance license and royalty payments under certain development and technology evaluation agreements. Certain of these payments are creditable against future amounts payable under commercial license agreements that the parties may subsequently enter into and, as such, are deferred until such license agreements are executed or negotiations have ceased and Company management determines that there is no appreciable likelihood of executing a license agreement with the other party. Revenue would then be recognized over the expected useful life of the relevant licensed technology, if there is an effective license agreement, or at the time Company management determines that there is no appreciable likelihood of an executable license agreement. Amounts deferred are classified as current and non-current based upon current contractual remaining terms; however, based upon on-going relationships with customers, as well as future agreement extensions, amounts classified as current as of December 31, 2010, may not be recognized as revenue over the next twelve months. Advanced payments received under agreements that are not creditable against license fees are deferred and recognized as revenue over the term of the agreement. Royalty revenue is recognized when earned and the amount is fixed and determinable.

Development chemical revenue represents revenues from sales of OLED materials to product manufacturers for evaluation and development purposes. Revenue is recognized at the time of shipment and passage of title. The customer does not have the right to return the materials.

Contract research revenue represents reimbursements by government entities for all or a portion of the research and development costs the Company incurs in relation to its government contracts. Revenues are recognized proportionally as research and development costs are incurred, or as defined milestones are achieved.

Included in accounts receivable as of December 31, 2010 and 2009 are unbilled receivables of $1,095,329 and $1,405,987, respectively. All amounts are billed and collected within one year.

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 2009 and 2008 to reflect this current presentation.

Research and Development

Expenditures for research and development are charged to operations as incurred. Research and development expenses consist of the following:

| | Year Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Development and operations in the Company's facility | $14,959,399 | $14,350,130 | $13,628,598 |
| Costs incurred under sponsored research agreements | 1,143,052 | 1,264,983 | 1,153,549 |
| PPG OLED Materials Agreement (Note 7) | 3,296,227 | 3,266,980 | 2,367,668 |
| Amortization of intangibles | 1,234,272 | 1,695,072 | 1,695,072 |
| Scientific Advisory Board compensation | 1,062,189 | 544,991 | 375,766 |
| | $21,695,139 | $21,122,156 | $19,220,653 |

Patent Costs

Costs associated with patent applications, patent prosecution, patent defense and the maintenance of patents are charged to expense as incurred. Costs to successfully defend a challenge to a patent are capitalized to the extent of an evident increase in the value of the patent. Costs that relate to an unsuccessful outcome are charged to expense.

Statement of Cash Flow Information

The following non-cash activities occurred:

| | Year Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Unrealized (loss) gain on available-for-sale securities | $ (11,819 ) | $ (100,980 ) | $ 176,699 |
| Common stock issued for royalties that was earned in a previous period | 81,273 | 81,954 | 66,403 |
| Common stock issued to Board of Directors and Scientific Advisory Board that was earned in a previous period | 314,181 | 309,802 | 299,968 |
| Common stock issued to employees that was accrued for | 929,552 | 1,031,645 | 867,510 |

| | | | |
|---|---|---|---|
| in a previous period, net of shares withheld for taxes | | | |
| Fair value of stock warrant liability reclassified to shareholders' equity upon exercise | 3,137,475 | — | — |
| Common stock issued to non-employee that was earned in a previous period | — | — | 991 |

Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. The Company accounts for the sale of its state net operating losses on a cash basis; therefore, it does not record an income tax benefit until the cash is received. The Company classifies interest and penalties, if any, as a component of tax expense.

Share-Based Payment Awards

The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation, such as shares issued under employee stock purchase plans, restricted stock and stock appreciation rights, 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 exercise or vesting of share-based payment awards.

Recent Accounting Pronouncements

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

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

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

3. RESEARCH AND LICENSE AGREEMENTS WITH PRINCETON UNIVERSITY, UNIVERSITY OF SOUTHERN CALIFORNIA AND THE UNIVERSITY OF 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 (1997 Research Agreement). The Principal Investigator conducting work under the 1997 Research Agreement transferred to Michigan in January 2006. Following this, the 1997 Research Agreement was allowed to expire on July 31, 2007.

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

Effective May 1, 2009, the Company amended the 2006 Research Agreement to extend the term of the agreement for an additional four years. As of December 31, 2010, the Company is obligated to pay USC up to $5,116,668 for work to actually be performed during the remaining extended term, which runs through April 30, 2013. From May 1, 2009 through December 31, 2010, the Company incurred $1,474,229 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 (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 incurred $555,546, $222,721, and $223,901 of royalty expense in connection with the agreement for the years ended December 31, 2010, 2009 and 2008, 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.

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Land | $ 820,000 | $ 820,000 |
| Building and improvements | 11,163,569 | 11,164,063 |
| Office and lab equipment | 14,630,062 | 14,504,076 |
| Furniture and fixtures | 339,599 | 332,818 |
| Construction-in-progress | 93,525 | 16,296 |
| | $ 27,046,755 | 26,837,253 |
| Less: Accumulated depreciation | (17,335,662) | (15,788,490) |
| Property and equipment, net | $ 9,711,093 | $ 11,048,763 |

Depreciation expense was $1,706,816, $2,069,626 and $1,943,184 for the years ended December 31, 2010, 2009 and 2008, respectively.

5. ACQUIRED TECHNOLOGY:

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

| | December 31, 2010 | 2009 |
|---|---|---|
| PD-LD, Inc. | $ 1,481,250 | $ 1,481,250 |
| Motorola | 15,469,468 | 15,469,468 |
| | 16,950,718 | 16,950,718 |
| Less: Accumulated amortization | (16,950,718) | (15,716,446) |
| Acquired technology, net | $ — | $ 1,234,272 |

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Amortization expense for all intangible assets was $1,234,272 for the year ended December 31, 2010 and $1,695,072 for each of the years ended December 31, 2009 and 2008. As of December 31, 2010, the acquired technology was fully amortized.

The Company was required under a license agreement to pay Motorola royalties on gross revenues earned by the Company from its sales of OLED products or components, or from its OLED technology licensees, whether or not these revenues related specifically to inventions claimed in the patent rights licensed from Motorola. For the years ended December 31, 2010, 2009 and 2008, the Company recorded royalty expenses of $310,356, $162,558 and $163,916, respectively. To satisfy the royalty obligation, the Company issued to Motorola 7,200 and 12,015 shares of the Company's common stock, valued at $81,273 and $81,954 and paid $81,285 and $81,962 in cash for the years ended December 31, 2009 and 2008, respectively, which were issued in 2010 and 2009, respectively.

On March 9, 2011, the Company entered into a Patent Purchase Agreement (Purchase Agreement) to purchase the patents previously licensed from Motorola. The Purchase Agreement eliminated any obligation to the Company to make additional royalty payments to Motorola under the License Agreement, including the 2010 royalty obligation. In consideration for this assignment and transfer of the patents, the Company made a one-time cash payment to Motorola, and granted Motorola a royalty-free, non-exclusive and non-sublicensable license under the Patent Properties for use by Motorola and its affiliates in their respective businesses. Such payment was not material to the Company's overall operations.

6. ACCRUED EXPENSES:

Accrued expenses consist of the following:

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Compensation | $ 4,013,391 | $ 3,440,951 |
| Royalties | 865,902 | 385,279 |
| Consulting | 340,543 | 357,064 |
| Professional fees | 558,929 | 406,381 |
| Subcontracts | 87,137 | 178,206 |
| Research and development agreements | 751,701 | 332,741 |
| Other | 288,686 | 138,248 |
| | $ 6,906,289 | $ 5,238,870 |

7. EQUITY AND CASH COMPENSATION UNDER THE PPG AGREEMENTS:

On October 1, 2000, the Company entered into a five-year Development and License Agreement (Development Agreement) and a seven-year Supply Agreement (Supply Agreement) with PPG Industries. 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 (OLED Materials Agreement). The OLED Materials Agreement superseded and replaced in their entireties the Development Agreement and Supply Agreement effective as of January 1, 2006, and extended the term of the

Company's relationship with PPG Industries through December 31, 2009. 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 cash and for other of the services through the issuance of shares of the Company's common stock. Up to 50% of the remaining services are payable, at the Company's sole discretion, in cash or shares of the Company's common stock, with the balance payable in 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 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.

During the years ended December 31, 2010, 2009 and 2008, the Company issued to PPG Industries 72,873, 110,839 and 82,669 shares of the Company's common stock, respectively, as consideration for services provided by PPG Industries under the OLED Materials Agreement. For these shares, the Company recorded charges of $1,173,346, $1,088,766 and $1,150,714 to expense for the years ended December 31, 2010, 2009 and 2008, respectively.

The Company also recorded $2,122,882, $2,178,214 and $1,216,954 in expense for the cash portion of the reimbursement of expenses to and work performed by PPG Industries, excluding amounts paid for commercial chemicals, during the years ended December 31, 2010, 2009 and 2008, respectively.

8. PREFERRED STOCK:

The Company's Articles of Incorporation authorize it to issue up to 5,000,000 shares of preferred stock with designations, rights and preferences determined from time-to-time by the Company's Board of Directors. Accordingly, the Company's Board of Directors is empowered, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of shareholders of the Company's common stock.

In 1995, the Company issued 200,000 shares of Series A Nonconvertible Preferred Stock (Series A) to American Biomimetics Corporation (ABC) pursuant to a certain Technology Transfer Agreement between the Company and ABC. The Series A shares have a liquidation value of $7.50 per share. Series A shareholders, as a single class, have the right to elect two members of the Company's Board of Directors. This right has never been exercised. Holders of the Series A shares are entitled to one vote per share on matters which shareholders are generally entitled to vote. The Series A shareholders are not entitled to any dividends.

9. SHAREHOLDERS' EQUITY:

Effective as of each of March 31, 2010, June 30, 2010 and September 30, 2010, the Company issued 5,760 shares and, as of December 31, 2010, the Company issued 5,756 shares of fully vested common stock to certain members of its Board of Directors as partial payment for services performed for the periods ended on such dates. The fair value of the shares issued was $284,725, of which $270,523 was recorded as a compensation charge in selling, general and administrative expense for the year ended December 31, 2010, and $14,202 was accrued for as a corresponding charge for the year ended December 31, 2009. During the years ended December 31, 2009 and 2008, respectively, the Company issued 22,260 and 21,100 shares of fully vested common stock to members of its Board of Directors. The fair value of the shares issued was $205,905 and $369,250, respectively, which was recorded as a compensation charge in selling, general and administrative expense for the years ended December 31, 2009 and 2008, respectively.

As of December 31, 2010, warrants to purchase 586,972 shares of the Company's common stock were outstanding. The weighted average exercise price for these warrants was $12.60, and the warrants expire in August 2011. During the years ended December 31, 2010, 2009 and 2008, respectively, warrants to purchase 677,826, 61,024, and 135,415 shares of common stock were exercised, resulting in proceeds to the Company of $9,515,232, $618,783 and $1,187,050, respectively. Subsequent to December 31, 2010 through March 15, 2011, warrants to purchase 269,676 shares of common stock were exercised, resulting in proceeds to the Company of $3,041,235.

In January 2011, 2010 and 2009, the Company granted a total of 59,472, 127,995 and 194,955 shares of fully vested common stock to employees and non-employee members of the Scientific Advisory Board for services performed in 2010, 2009 and 2008, respectively. The fair value of the shares issued was $1,768,493, $1,513,710 and $1,673,352, respectively, for employees and $299,943, $299,979 and $299,997, respectively, for non-employee members of the Scientific Advisory Board, which amounts were accrued at December 31, 2010, 2009 and 2008, respectively. In connection with the issuance of these grants, 18,792, 41,259 and 63,372 shares, with a fair value of $655,010, $585,220 and $641,707, were withheld in satisfaction of employee tax withholding obligations in 2011, 2010 and 2009, respectively. The stock awards were recorded as a compensation charge for the years ended December 31, 2010, 2009 and 2008 in general and administrative expense in the amounts of $1,193,545, $1,051,697 and $1,162,221, respectively, and in research and development expense in the amounts of $874,891, $761,992 and $811,128, respectively.

10. STOCK-BASED COMPENSATION:

Equity Compensation Plan

In 1995, the Board of Directors of the Company adopted a Stock Option Plan (1995 Plan), under which options to purchase a maximum of 500,000 shares of the Company's common stock were authorized to be granted at prices not less than the fair market value of the common stock on the date of the grant, as determined by the Compensation Committee of the Board of Directors. Through December 31, 2010, the Company's shareholders have approved increases in the number of shares reserved for issuance under the 1995 Plan to 7,000,000, and have extended the term of the 1995 Plan through 2015. The 1995 Plan was also amended and restated in 2003, and is now called the Equity Compensation Plan. The Equity Compensation Plan provides for the granting of incentive and nonqualified stock options, shares of common stock, stock appreciation rights and performance units to employees, directors and consultants of the Company. Stock options are exercisable over periods determined by the Compensation Committee, but for no longer than 10 years from the grant date. At December 31, 2010, there were 597,167 shares that remained available to be granted under the Equity Compensation Plan.

The following table summarizes the stock option activity during the year ended December 31, 2010 for all grants under the Equity Compensation Plan:

| | Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at January 1, 2010 | 2,596,501 | $ 10.65 |
| Granted | 10,000 | 9.00 |
| Exercised | (681,478 ) | 9.69 |
| Forfeited | — | — |
| Cancelled | (120,750 ) | 21.08 |
| Outstanding at December 31, 2010 | 1,804,273 | 10.30 |
| Vested and expected to vest | 1,804,273 | 10.30 |
| Exercisable at December 31, 2010 | 1,804,273 | 10.30 |

The weighted average grant date fair value of stock options granted in 2010, 2009 and 2008 was $3.84, $8.06 and $8.80, respectively. The fair value of the stock options granted was estimated using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model considers assumptions related to volatility, risk-free interest rates, dividend yields and expected life. Expected volatility was based on the Company's historical daily stock price volatility. The risk-free rate was based on average U.S. Treasury security yields in the quarter of the grant. The dividend yield was based on historical information. The expected life was determined using historical information and management estimates. The following table provides the assumptions used in determining the fair value of the stock options for the years ended December 31, 2010, 2009 and 2008, respectively:

| | 2010 | 2009 | 2008 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Dividend yield rate | 0 % | 0 % | 0 % |
| Expected volatility | 46.3 % | 74.8 % | 49.4 % |
| Risk-free interest rates | 0.2 % | 3.6 % | 2.8 % |
| Expected life | 0.3 Years | 10 Years | 5 Years |

The following table summarizes the status of unvested stock options at December 31, 2010, and the weighted-average grant date fair value of these stock options at December 31, 2010:

| | Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested options at January 1, 2010 | 9,000 | $ 10.87 |
| Granted | 10,000 | 3.84 |
| Vested | (19,000) | 7.17 |
| Forfeited | — | — |
| Unvested options at December 31, 2010 | — | $ — |

A summary of stock options outstanding and exercisable by price range at December 31, 2010 is as follows:

| | Outstanding and Exercisable | | | |
|---|---|---|---|---|
| Exercise Price | Number of Options Outstanding at December 31, 2010 | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Aggregate Intrinsic Value (A) |
| $ 5.45–8.17 | 559,515 | 3.08 | $ 7.05 | $ 13,206,746 |
| 8.18-12.27 | 821,550 | 3.10 | 9.87 | 17,073,926 |
| 12.28–18.42 | 423,208 | 3.37 | 15.44 | 6,436,733 |
| $ 5.45–18.42 | 1,804,273 | 3.16 | $ 10.30 | $ 36,717,405 |

(A) The difference between the stock option's exercise price and the closing price of the common stock at December 31, 2010.

The total intrinsic value of stock awards exercised during the years ended December 31, 2010, 2009 and 2008 was \$8,075,057, \$2,310,832 and \$1,820,464, respectively. The Company recorded as compensation expense related to the vesting of all employee stock options charges of \$30,497, \$97,145 and \$211,348 for the years ended December 31, 2010, 2009 and 2008, respectively.

In 2010, 54,650 shares of common stock, valued at \$1,500,931, were tendered to net share settle the exercise of options.

The Company has issued restricted stock to employees and non-employee members of the Scientific Advisory Board with vesting terms of one to three years. The fair value is equal to the market price of the Company's common stock on the date of grant. Expense for restricted stock is amortized ratably over the vesting period for the awards issued to employees and using a graded vesting method for the awards issued to non-employee members of the Scientific

Advisory Board.

For the years ended December 31, 2010, 2009 and 2008, the Company recorded, as compensation charges related to all restricted stock and certain other awards, general and administrative expense of $2,024,507, $993,357 and $647,666, respectively, and research and development expense of $1,421,686, $761,046 and $445,318, respectively. In connection with the vesting of deferred and restricted stock awards during the years ended December 31, 2010, 2009 and 2008, respectively, 40,049, 22,164 and 13,183 shares, with an aggregate fair value of $581,833, $209,685 and $226,710, were withheld in satisfaction of tax withholding obligations.

In addition, on January 6, 2011, the Company granted a total of 91,097 shares of restricted common stock to employees and non-employee members of the Scientific Advisory Board for services to be rendered. The restricted stock had a fair value of $3,168,384 on the date of grant and vests over one to three years from the date of grant.

The following table summarizes the stock activity related to restricted stock awards and units and fully vested share based payment awards:

| | Number of Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Unvested, January 1, 2010 | 266,127 | $ 12.57 |
| Granted | 787,595 | 13.54 |
| Vested | (279,919) | 14.46 |
| Cancelled | — | — |
| | | |
| Unvested, December 31, 2010 | 773,803 | $ 12.87 |

The weighted average grant-date fair value of restricted stock awards and units and fully vested shares based payment awards granted was $13.54, $10.12 and $17.53 in 2010, 2009 and 2008, respectively.

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 years ended December 31, 2010 and 2009, the Company issued 19,583 and 14,056 shares of its common stock under the ESPP, resulting in proceeds of $245,684 and $130,184, respectively. For the year ended December 31, 2010 and 2009, the Company recorded charges of $26,061 and $15,276 to general and administrative expense and $50,834 and $27,718 to research and development expense, respectively, related to the ESPP equal to the amount of the discount and the value of the look-back feature.

11. 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 (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 December 31, 2010 there were five participants in the SERP.

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

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

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

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

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

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

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

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

In connection with the initiation of the SERP, the Company recorded cost related to prior service of $5,611,079 as accumulated other comprehensive loss. The prior service cost is being amortized as a component of net periodic pension cost over the average of the remaining service period of the employees expected to receive benefits under the plan. The prior service cost expected to be amortized for year ended December 31, 2011 is $584,487.

Information relating to the Company's plan is as follows:

| | Year Ended December 31, 2010 |
|---|---|
| Change in benefit obligation: | |
| Benefit obligation, upon plan adoption | $ 5,611,079 |
| Service cost | 331,837 |
| Interest cost | 256,041 |
| Actuarial loss | 878,944 |

| | | |
|---|---|---|
| Benefit obligation, end of year | | 7,077,901 |
| Fair value of plan assets | | — |
| Unfunded status of the plan, end of year | $ | 7,077,901 |
| Current liability | $ | — |
| Noncurrent liability | | 7,077,901 |

The accumulated benefit obligation for the plan was $5,890,000 as of December 31, 2010.

The components of net periodic pension cost were as follows:

| | Year Ended December 31, 2010 |
|---|---|
| Service cost | $ 331,837 |
| Interest cost | 256,041 |
| Amortization of prior service cost | 438,366 |
| Total net periodic benefit cost | $ 1,026,244 |

The measurement date is the Company's fiscal year end. The net periodic pension cost is based on assumptions determined at the prior year end measurement date.

Assumptions used to determine the year end benefit obligation were as follows:

| | Year Ended December 31, 2010 |
|---|---|
| Discount rate | 5.44 % |
| Rate of compensation increases | 3.5 % |

Assumptions used to determine the net periodic pension cost were as follows:

| | Year Ended December 31, 2010 |
|---|---|
| Discount rate | 6.13 % |
| Rate of compensation increases | 3.5 % |

Actuarial losses are amortized from accumulated other comprehensive loss into net periodic pension cost over future years based upon the average remaining service period of active plan participants, when the accumulation of such losses exceeds 10% of the year end benefit obligation. The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost(credit)) is included in the Company's results of operations on a straight-line basis over the average remaining service period of active plan participants.

The estimated amounts to be amortized from accumulated other comprehensive loss into the net periodic pension cost in 2011 are as follows:

| | |
|---|---|
| Amortization of prior service cost | $584,000 |
| Amortization of loss | 16,000 |
| Total | $600,000 |

Benefit payments, which reflect estimated future service, are currently expected to be paid as follows:

| Year | Projected Benefits |
|---|---|
| 2011 | $ — |

| | |
|---|---|
| 2012 | 195,000 |
| 2013 | 467,000 |
| 2014 | 467,000 |
| 2015 | 467,000 |
| 2016-2020 | 4,098,000 |
| Thereafter | 14,902,000 |

## 12. 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 3 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 3 for further explanation.

The Company has agreements with six executive officers which provide for certain cash and other benefits upon termination of employment of the officer in connection with a change in control of the Company. Each executive is entitled to a lump-sum cash payment equal to two times the sum of the average annual base salary and bonus of the officer and immediate vesting of all stock options and other equity awards that may be outstanding at the date of the change in control, among other items.

### Opposition to European Patent No. 0946958

On December 8, 2006, Cambridge Display Technology, Ltd. (CDT), which was acquired in 2007 by Sumitomo Chemical Company (Sumitomo), filed a Notice of Opposition to European Patent No. 0946958 (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 (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 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009. 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 Company is still waiting for the EPO to notify it of the date of the Oral Hearing. The Company is also waiting to see whether the other parties in the opposition file any additional documents, to which the Company may respond.

At this time, Company management cannot make any prediction as to the probable outcome of the opposition. However, based on its 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 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 (JPO) for its Japan Patent No. 3992929 (JP '929 patent), which was issued on August 3, 2007. The request for the Invalidation Trial was filed by Semiconductor Energy Laboratory Co., Ltd., 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 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009.

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 its 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. The Company is still waiting to receive a translated copy of the JPO's decision, after which it plans to appeal this portion of the decision to the Japanese IP High Court.

At this time, based on its current knowledge, Company management believes that the JPO decision invalidating certain claims in our JP '929 patent should be overturned on appeal. 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 (EP '270 patent). The EP '270 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 and 7,563,519; and to pending U.S. patent application 12/489,045, filed on June 22, 2009. These patents and this patent application relate to the Company's PHOLED technology. They are exclusively licensed to the Company by Princeton, and under the license agreement the Company is required to pay all legal costs and fees associated with this proceeding. The five companies are Merck Patent GmbH, of Darmstadt, Germany; BASF Schweitz AG of Basil, 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 notify it 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 may respond.

At this time, Company management cannot make any prediction as to the probable outcome of the oppositions. However, based on its 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 (JP '781 patent) and 4358168 (JP '168 patent), which were both issued on August 14, 2009. The requests for these two additional Invalidation Trials were also filed by Semiconductor Energy Laboratory Co., Ltd., of Kanagawa, Japan. 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 and 7,537,844; and to pending U.S. patent application 12/434,259, filed on May 1, 2009. Under its 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 its 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.

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

Interference 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 (USPTO) on November 17, 2010 between The University of Southern California and The Trustees of Princeton University, Junior Party, (The Universities) and Fujifilm Holding Corporation (Fuji), Senior Party. The dispute is between The Universities' U.S. Patent No 6,902,830 ('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, which all have a due date of April 29, 2011. The Company is currently preparing to file these motions.

At this time, Company management cannot make any prediction as to the probable outcome of the Interference. However, based on its current knowledge, Company management believes there is a substantial likelihood that its claims 48-52 of the '830 patent will prevail.

Request for an Invalidation Trial in Korea for Patent No. 10-0998059

On March 10, 2011, the Company received informal notice from its Korean patent counsel of a Request for an Invalidation Trial from the Korean Intellectual Property Office (KIPO) for its Korean Patent No. 10-0998059 (KR '059 patent), which was issued on November 26, 2010. The Company does not yet know who filed the request. 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.

13. CONCENTRATION OF RISK:

Contract research revenue, which is included in developmental revenue in the accompanying statement of operations, of $4,939,546, $4,373,316, and $2,815,062 for the years ended December 31, 2010, 2009 and 2008, respectively, has been derived from contracts with United States government agencies. Revenues derived from contracts with government agencies represented 16%, 28% and 25% of the consolidated revenue for the years ended December 31, 2010, 2009 and 2008, respectively.

Revenues and accounts receivable from our largest non-government customers for the years ended December 31 were as follows:

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| Customer | % of Total Revenue | Accounts Receivable | % of Total Revenue | Accounts Receivable | % of Total Revenue | Accounts Receivable |
| A | 35 % | $ 2,635,290 | 31 % | $ 528,150 | 42 % | $ 657,000 |
| B | 23 % | 2,246,295 | 9 % | 630,800 | 1 % | 13,000 |
| C | — % | — | 10 % | — | 2 % | — |

The Company's relationships with customers A and B are under agreements that are presently scheduled to expire within the next twelve months.

Revenues from outside of North America represented 82%, 70% and 72% of the consolidated revenue for the years ended December 31, 2010, 2009 and 2008, respectively.

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

14. INCOME TAXES:

The components of the income tax benefit are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Current income tax benefit (expense): | | | |
| Federal | $ — | $ 104,428 | $ — |
| State | 464,162 | 25,487 | 962,478 |
| Foreign | (329,813) | — | — |
| | 134,349 | 129,915 | 962,478 |
| Deferred income tax benefit: | | | |
| Federal | — | — | — |
| State | — | — | — |
| Foreign | — | — | — |
| | — | — | — |
| | | | |
| Income tax benefit | $ 134,349 | $ 129,915 | $ 962,478 |

The difference between the Company's federal statutory income tax rate and its effective income tax rate is primarily due to the increase in the valuation allowance, as well as state income tax benefits, foreign withholding tax, non-deductible expenses and general business credits. Substantially all of the Company's loss before income tax benefit is derived from domestic operations. The Company's valuation allowance increased $7,072,000, $11,232,000, and $7,692,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

As of December 31, 2010, the Company had net operating loss and credit carry forwards. The Company's net operating loss carry forwards differ from the accumulated deficit principally due to the timing of the recognition of certain expenses. A portion of the Company's net operating loss carry forwards relate to tax deductions from stock-based compensation that would be accounted for as an increase to additional-paid-in-capital for financial reporting purposes to the extent such future deductions could be utilized by the Company. In accordance with the Tax Reform Act of 1986, utilization of the Company's net operating loss and general business credit carry forwards could be subject to limitations because of certain ownership changes. The following table summarizes Company tax loss and tax credit carry forwards at December 31, 2010:

| | Related Tax Deduction | Deferred Tax Asset | Expiration Date |
|---|---|---|---|
| Loss carry forwards: | | | |

| | | | |
|---|---|---|---|
| Federal net operating loss | $ 176,277,000 | $ 59,934,000 | 2011 to 2030 |
| State net operating loss | 129,820,000 | 7,695,000 | 2011 to 2030 |
| Total loss carry forwards | $ 306,097,000 | $ 67,629,000 | |
| Tax credit carry forwards: | | | |
| Research tax credit | n/a | $ 6,451,000 | 2020 to 2030 |
| State tax credits | n/a | 1,943,000 | 2019 to 2025 |
| Total credit carry forwards | n/a | $ 8,394,000 | |

Significant components of the Company's deferred tax assets are as follows:

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Gross deferred tax assets: | | |
| Net operating loss carry forwards | $ 67,629,000 | $ 64,723,000 |
| Capitalized technology license | 3,811,000 | 3,769,000 |
| Stock options and warrants | 411,000 | 83,000 |
| Accruals and reserves | 3,290,000 | 418,000 |
| Deferred revenue | 3,235,000 | 4,105,000 |
| Other | 827,000 | 635,000 |
| Tax credit carry forward | 8,394,000 | 6,792,000 |
| | 87,597,000 | 80,525,000 |
| Valuation allowance | (87,597,000) | (80,525,000) |
| Net deferred tax asset | $ — | $ — |

During the year ended December 31, 2009, the Company received federal cash refunds of $104,428 related to research and development credits. The Company also received state cash refunds of $25,487 from claims for overpaid New Jersey Alternative Minimum Assessment tax for taxable years 2003 to 2006. During the years ended December 31, 2010 and 2008, the Company sold approximately $3.8 million and $12.5 million, respectively, of its net state operating losses and $194,000 and $0 of its research and development tax credits under the New Jersey Technology Tax Certificate Transfer Program, and received net proceeds of $464,162 and $962,478, respectively, during these years. The Company recorded the proceeds as an income tax benefit. During the year ended December 31, 2010 the Company paid foreign withholding taxes on South Korean royalty income of $329,813 which was recorded as current income tax expense.

A valuation allowance has been established for all of the deferred tax assets because the Company has incurred substantial operating losses since inception and expects to incur additional losses in 2011. At this time, Company management has concluded that these deferred tax assets are not realizable.

The Company does not have any liability recorded for uncertain tax positions as of December 31, 2010 and December 31, 2009. Company management does not anticipate any material change in its uncertain tax positions in the next twelve months. The Company's federal income tax returns for 2007 through 2010 are open tax years and are subject to examination by the Internal Revenue Service. State tax years (Pennsylvania, New Jersey, Idaho and California) that remain open to examination range from 2006 to 2010.

The Company filed for and was granted a five-year exemption on withholding tax on royalty payments received from 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 2010, the withholding tax rate for royalty payments made by Samsung SMD was 16.5%.

15. DEFINED CONTRIBUTION PLAN:

The Company maintains the Universal Display Corporation 401(k) Plan (Plan) in accordance with the provisions of Section 401(k) of the Internal Revenue Code (Code). The Plan covers substantially all full-time employees of the Company. Participants may contribute up to 15% of their total compensation to the Plan, not to exceed the limit as defined in the Code, with the Company matching 50% of the participant's contribution, limited to 6% of the participant's total compensation. For the years ended December 31, 2010, 2009 and 2008, the Company contributed $245,026, $230,395 and $200,956, respectively, to the Plan.

16. QUARTERLY SUPPLEMENTAL FINANCIAL DATA (UNAUDITED):

The following tables present certain unaudited consolidated quarterly financial information for each of the eight quarters in the two-year period ended December 31, 2010. In the opinion of Company management, this quarterly information has been prepared on the same basis as the consolidated financial statements and includes all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information for the periods presented. The results of operations for any quarter are not necessarily indicative of the results for the full year or for any future period.

Year ended December 31, 2010:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 | Total |
| Revenue | $4,246,650 | $8,446,829 | $7,055,861 | $10,795,040 | $30,544,380 |
| Net loss | (2,978,331) | (4,436,095) | (7,186,570) | (5,316,414) | (19,917,410) |
| Basic and diluted net loss per common share | (0.08) | (0.12) | (0.19) | (0.14) | (0.53) |

Year ended December 31, 2009:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 | Total |
| Revenue | $2,833,858 | $2,956,354 | $5,145,393 | $4,851,012 | $15,786,617 |
| Net loss | (5,569,599) | (6,415,178) | (4,672,847) | (3,847,696) | (20,505,320) |
| Basic and diluted net loss per common share | (0.15) | (0.18) | (0.13) | (0.10) | (0.56) |