UNIVERSAL DISPLAY CORP \PA\
Form 10-Q
August 10, 2009

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2009

OR

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

Commission File Number 1-12031

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

Pennsylvania	23-2372688
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

375 Phillips Boulevard Ewing, New Jersey	08618
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (609) 671-0980

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer ___ Accelerated filer X
Non-accelerated filer ___ (Do not check if a smaller reporting company) Smaller reporting company ___

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

As of August 3, 2009, the registrant had outstanding 36,453,729 shares of common stock.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,881,422	$ 28,321,581
Short-term investments	58,248,626	49,132,619
Accounts receivable	1,760,763	2,450,444
Inventory	1,330	2,209
Other current assets	560,464	462,908
Total current assets	70,452,605	80,369,761
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $14,922,162 and $13,902,617	11,949,755	12,859,628
ACQUIRED TECHNOLOGY, net of accumulated amortization of $14,868,910 and $14,021,374	2,081,808	2,929,344
OTHER ASSETS	236,908	69,772
TOTAL ASSETS	$ 84,721,076	$ 96,228,505
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,542,610	$ 1,585,015
Accrued expenses	3,889,312	5,296,433
Deferred license fees	6,148,267	6,148,267
Deferred revenue	2,002,450	2,739,790
Total current liabilities	13,582,639	15,769,505
DEFERRED LICENSE FEES	3,066,238	3,407,037
DEFERRED REVENUE	262,500	337,500
STOCK WARRANT LIABILITY	2,808,578	—
Total liabilities	19,719,955	19,514,042
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY:		
Preferred Stock, par value $0.01 per share, 5,000,000 shares authorized, 200,000 shares of Series A Nonconvertible Preferred Stock issued and outstanding (liquidation value of $7.50 per share or $1,500,000)	2,000	2,000

Common Stock, par value $0.01 per share, 50,000,000 shares authorized, 36,441,975 and 36,131,981 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	364,420	361,320
Additional paid-in capital	253,117,552	256,696,849
Unrealized gain on available-for-sale securities	105,311	126,497
Accumulated deficit	(188,588,162)	(180,472,203)
Total shareholders' equity	65,001,121	76,714,463
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 84,721,076	$ 96,228,505

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,	
	2009	2008
REVENUE:		
Commercial revenue	$ 1,239,056	$ 1,395,487
Developmental revenue	1,717,298	750,111
Total revenue	2,956,354	2,145,598
OPERATING EXPENSES:		
Cost of chemicals sold	318,191	246,962
Research and development	5,324,695	4,377,329
Selling, general and administrative	2,715,071	2,679,944
Patent costs	823,729	676,024
Royalty and license expense	85,431	95,284
Total operating expenses	9,267,117	8,075,543
Operating loss	(6,310,763)	(5,929,945)
INTEREST INCOME	188,593	737,368
INTEREST EXPENSE	(298)	(13,213)
LOSS ON STOCK WARRANT LIABILITY	(292,710)	—
NET LOSS	$ (6,415,178)	$ (5,205,790)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.18)	$ (0.15)
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	36,383,255	35,900,554

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
REVENUE:		
Commercial revenue	$ 2,608,193	$ 2,950,552
Developmental revenue	3,182,019	1,911,865
Total revenue	5,790,212	4,862,417
OPERATING EXPENSES:		
Cost of chemicals sold	489,178	442,438
Research and development	10,543,757	8,817,467
Selling, general and administrative	5,338,016	5,053,490
Patent costs	1,555,260	1,387,410
Royalty and license expense	168,362	198,469
Total operating expenses	18,094,573	15,899,274
Operating loss	(12,304,361)	(11,036,857)
INTEREST INCOME	441,993	1,656,562
INTEREST EXPENSE	(2,941)	(18,880)
LOSS ON STOCK WARRANT LIABILITY	(119,468)	—
NET LOSS	$ (11,984,777)	$ (9,399,175)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.33)	$ (0.26)
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	36,341,840	35,835,600

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months Ended June 30, 2009	Six months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (11,984,777)	$ (9,399,175)
Non-cash charges to statement of operations:		
Depreciation	1,036,126	926,330
Amortization of intangibles	847,536	847,536
Amortization of premium and discount on investments, net	(266,946)	(827,330)
Stock-based employee compensation	989,611	801,339
Stock-based non-employee compensation	6,518	4,119
Non-cash expense under a development agreement	582,301	558,035
Stock-based compensation to Board of Directors and Scientific Advisory Board	176,511	233,613
Loss on stock warrant liability	119,468	—
(Increase) decrease in assets:		
Accounts receivable	689,681	665,751
Inventory	879	38,956
Other current assets	(97,556)	(67,326)
Other assets	(167,136)	5,000
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	422,769	1,201,365
Deferred license fees	(340,799)	(255,800)
Deferred revenue	(812,340)	(261,371)
Net cash used in operating activities	(8,798,154)	(5,528,958)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(126,253)	(481,573)
Purchase of short-term investments	(52,014,248)	(50,542,476)
Proceeds from sale of short-term investments	43,144,000	60,824,000
Net cash (used in) provided by investing activities	(8,996,501)	9,799,951
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of common stock options and warrants	198,970	2,148,183
Payment of withholding taxes related to stock-based employee compensation	(844,474)	(749,770)
Net cash (used in) provided by financing activities	(645,504)	1,398,413
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18,440,159)	5,669,406
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,321,581	33,870,696
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 9,881,422	$ 39,540,102
The following non-cash activities occurred:		

Unrealized loss on available-for-sale securities	$	21,186	$	14,367
Common stock issued to Board of Directors and Scientific Advisory Board that was earned in a previous period		309,802		299,968
Common stock issued to employees that was earned in a previous period, net of shares withheld for taxes		838,831		880,352
Common stock issued for royalties that was earned in a previous period		81,954		66,403
Common stock issued to non-employee that was earned in a previous period		—		991

The accompanying notes are an integral part of these statements.

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BACKGROUND

Universal Display Corporation (the “Company”) is engaged in the research, development and commercialization of organic light emitting diode (“OLED”) technologies and materials for use in flat panel display, solid-state lighting and other product applications. The Company’s primary business strategy is to develop and license its proprietary OLED technologies to product manufacturers for use in these applications. In support of this objective, the Company also develops new OLED materials and sells those materials to product manufacturers. Through internal research and development efforts and relationships with entities such as Princeton University (“Princeton”), the University of Southern California (“USC”), the University of Michigan (“Michigan”), Motorola, Inc. (“Motorola”) and PPG Industries, Inc. (“PPG Industries”), the Company has established a significant portfolio of proprietary OLED technologies and materials (Note 4 and 5).

2. BASIS OF PRESENTATION

Interim Financial Information

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company’s latest year-end financial statements, which are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008, as amended. The results of Company’s operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for the full year.

Management’s Use of Estimates

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

Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, other current assets, and accounts payable are reflected in the accompanying financial statements at fair value due to the short-term nature of those instruments. See Note 3 for a discussion of short-term investments.

Recent Accounting Pronouncements

In April 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position (“FSP”) No. 142-3, Determination of the Useful Life of Intangible Assets (“FSP 142-3”), which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible

assets under Statement of Financial Accounting Standard (“SFAS”) No. 142, Goodwill and Other Intangible Assets. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under FSP 142-3, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, assumptions that market participants would use about renewal or extension. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP 142-3 did not have any impact on the Company’s results of operations or financial position.

In June 2008, the Emerging Issues Task Force (“EITF”) issued EITF Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock (“EITF 07-5”), to address concerns regarding the meaning of “indexed to an entity’s own stock” contained in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. EITF 07-5 relates to the determination of whether a freestanding equity-linked instrument should be classified as equity or debt. If an instrument is classified as debt, it is valued at fair value, and this value is remeasured on an ongoing basis, with changes recorded on the statement of operations in each reporting period. EITF 07-5 is effective for financial statements for fiscal years beginning after December 15, 2008. At January 1, 2009, the Company had warrants to purchase 838,446 shares of common stock outstanding containing a “down-round” provision that did not qualify for the scope of exception from the provisions of SFAS No. 133. In accordance with EITF 07-5, the fair value of these warrants is 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 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 from $180,472,203 to $176,603,385 to reflect the cumulative effect of the adoption of EITF 07-5. The change in fair value of these warrants resulted in a $292,710 and $119,468 loss on the statement of operations for the three and six months ended June 30, 2009, respectively. The Company 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 exercised or expire.

In November 2008, the FASB ratified EITF No. Issue 08-7, Accounting for Defensive Intangible Assets ("EITF 08-7"). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting which should be amortized to expense over the period the intangible asset will directly or indirectly affect the entity's cash flows. Defensive intangible assets must be recognized at fair value in accordance with SFAS No. 141R, Business Combinations and SFAS No. 157, Fair Value Measurements. EITF 08-7 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect EITF 08-7 will have an impact on its results of operations or financial position.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ("FSP FAS 157-4"). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for an asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and is to be applied prospectively. The adoption of FSP FAS 157-4 did not have any impact on the Company's results of operations or financial position.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board ("APB") 28-1, Interim Disclosures about Fair Value of Financial Instruments. FSP FAS 107-1 and APB 28-1 enhance consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 107-1 and APB 28-1 relate to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were disclosed only once a year. The FSP now requires these disclosures to be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009. The Company adopted FSP FAS 107-1 and APB 28-1 and has included additional disclosure in these notes to consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for the quarter ended June 30, 2009. The adoption of SFAS 165 did not have a material impact on the Company's financial statements. The Company evaluated all events and transactions that occurred up through the date and time the Company issued these financial statements on August 10, 2009. During this period, the Company did not have any material recognizable or non-recognizable subsequent events.

Correction of Prior Year Consolidated Financial Amounts

Management has determined that the shares withheld to cover employee payroll taxes on stock-based compensation in 2008 should have been recorded as a cash outflow from financing activity in the 2008 consolidated cash flow

statement. This immaterial error has been corrected, resulting in a decrease in net cash used in operating activities and a decrease in net cash provided by financing activities of $749,770 for the six months ended June 30, 2008. This correction did not change any amounts on the consolidated balance sheet or statement of operations. Management believes that the effect of these corrections is not material to the Company's financial position, results of operations or liquidity for any period presented.

3. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

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

Short-term investments at June 30, 2009 and December 31, 2008 consist of the following:

Investment Classification	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Market Value
June 30, 2009 –				
Certificates of deposit	$ 9,346,929	$ 10,193	$ (6,926)	$ 9,350,196
U.S. Government bonds	48,796,386	102,044	—	48,898,430
	$ 58,143,315	$ 112,237	$ (6,926)	$ 58,248,626
December 31, 2008 –				
Certificates of deposit	$ 10,318,000	$ 35,577	$ (3,323)	$ 10,350,254
U.S. Government bonds	38,688,122	96,121	(1,878)	38,782,365
	$ 49,006,122	$ 131,698	$ (5,201)	$ 49,132,619

All short-term investments held at June 30, 2009 will mature within one year.

The FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"), which clarified the definition of fair value, established a framework for measuring fair value and expanded disclosures on fair value measurements. SFAS 157 established a valuation hierarchy for disclosure of the inputs to valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on management's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2009:

		Fair Value Measurements, Using		
	Total carrying value as of June 30, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments	$ 58,248,626	$ 58,248,626	$ —	$ —

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

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

As a result of the transfer, the Company entered into a new Sponsored Research Agreement with USC to sponsor OLED technology research at USC and, on a subcontractor basis, Michigan. This new Research Agreement (the "2006

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

Effective May 1, 2009, the Company amended the 2006 Research Agreement to extend the term of the agreement for an additional four years. Under the amendment, the Company is obligated to pay USC up to $7,456,294 for work actually performed during the extended term, which runs through April 30, 2013. From May 1, 2009 through June 30, 2009, the Company incurred $413,821 in research and development expense for work performed under the amended 2006 Research Agreement.

On October 9, 1997, the Company, Princeton and USC entered into an Amended License Agreement (as amended, the "1997 Amended License Agreement") under which Princeton and USC granted the Company worldwide, exclusive license rights, with rights to sublicense, to make, have made, use, lease and/or sell products and to practice processes based on patent applications and issued patents arising out of work performed by Princeton and USC under the 1997 Research Agreement. Under this agreement, the Company is required to pay Princeton royalties for licensed products sold by the Company or its sublicensees. For licensed products sold by the Company, the Company is required to pay Princeton 3% of the net sales price of these products. For licensed products sold by the Company's sublicensees, the

Company is required to pay Princeton 3% of the revenues received by the Company from these sublicensees. These royalty rates are subject to renegotiation for products not reasonably conceivable as arising out of the 1997 Research Agreement if Princeton reasonably determines that the royalty rates payable with respect to these products are not fair and competitive.

The Company is obligated under the 1997 Amended License Agreement to pay to Princeton minimum annual royalties. The minimum royalty payment is $100,000 per year. The Company accrued royalty expense in connection with this agreement of $50,767 and $50,895 for the three months ended June 30, 2009 and 2008, respectively, and $95,130 and $104,952 for the six months ended June 30, 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.

5. EQUITY AND CASH COMPENSATION UNDER THE PPG INDUSTRIES AGREEMENTS

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

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

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

The Company is also required under the OLED Materials Agreement to reimburse PPG Industries for its raw materials and conversion costs for all development chemicals produced on behalf of the Company.

The Company issued 69,313 and 34,862 shares of the Company's common stock to PPG Industries as consideration for services provided by PPG Industries under the OLED Materials Agreement during the six months ended June 30, 2009 and 2008, respectively. For the three months ended June 30, 2009 and 2008, the Company recorded $272,926 and $316,134 to research and development expense, respectively, for these shares. For the six months ended June 30, 2009 and 2008, the Company recorded $582,301 and $558,035 to research and development expense, respectively, for these shares.

For the three months ended June 30, 2009 and 2008, the Company recorded $172,174 and $270,819 to research and development expense for the cash portion of the reimbursement of expenses to and work performed by PPG Industries, respectively. For the six months ended June 30, 2009 and 2008, the Company recorded $1,021,014 and $503,691 to research and development expense for the cash portion of the reimbursement of expenses to and work performed by PPG Industries, respectively.

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6. SHAREHOLDERS' EQUITY

	Preferred Stock, Series A		Common Stock		Additional Paid-In	Unrealized Gain on Available-for-Sale	Accumulated	Total
	Shares	Amount	Shares	Amount	Capital	Securities	Deficit	Equity
BALANCE, JANUARY 1, 2009	200,000	$ 2,000	36,131,981	$ 361,320	$ 256,696,849	$ 126,497	$ (180,472,203)	$ 76,714,463
Cumulative effect of the adoption of EITF 07-5, see Note 2	-	-	-	-	(6,557,928)	-	3,868,818	(2,689,110)
Exercise of common stock options (A)	-	-	34,265	343	198,627	-	-	198,970
Stock-based employee compensation, net of shares withheld for taxes (B)	-	-	143,378	1,434	1,624,241	-	-	1,625,675
Stock-based non-employee compensation	-	-	409	4	6,514	-	-	6,518
Issuance of common stock to Board of Directors and Scientific Advisory Board (C)	-	-	50,614	506	485,807	-	-	486,313
Issuance of common stock in connection with development and license agreements (D)	-	-	81,328	813	663,442	-	-	664,255
Net loss	-	-	-	-	-	-	(11,984,777)	(11,984,777)
Unrealized loss on available-for-sale securities	-	-	-	-	-	(21,186)	-	(21,186)