UNUMPROVIDENT CORP
Form 8-K
November 01, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 1, 2005

UNUMPROVIDENT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**1-11834**	**62-1598430**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**(IRS Employer Identification No.)**

1 Fountain Square

Chattanooga, Tennessee 37402

(Address of principal executive offices)(Zip Code)

(423) 294-1011

(Registrant s telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On November 1, 2005, UnumProvident Corporation issued a press release reporting its results for the third quarter of 2005, a copy of which is furnished herewith as Exhibit 99.1 to this Current Report on Form 8-K and incorporated herein by reference.

Also on November 1, 2005, UnumProvident Corporation posted on its website at www.unumprovident.com the Statistical Supplement relating to its financial results for the third quarter of 2005. A copy of the Statistical Supplement is furnished herewith as Exhibit 99.2 and incorporated herein by reference.

In accordance with General Instruction B.2 of Form 8-K, the information included or incorporated in this Item 2.02, including Exhibits 99.1 and 99.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall such information and exhibits be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits. The following exhibits are filed with this Report:

99.1	Press release of UnumProvident Corporation dated November 1, 2005, of earnings for the third quarter of 2005.
99.2	Statistical Supplement of UnumProvident Corporation for the third quarter of 2005.

SIGNATURES

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

UnumProvident Corporation

(Registrant)

Date: November 1, 2005

By: /s/ SUSAN N. ROTH
Name: **Susan N. Roth**
Title: **Vice President, Corporate Secretary and Assistant General Counsel**

INDEX TO EXHIBITS

EXHIBIT

99.1	Press release of UnumProvident Corporation dated November 1, 2005, of earnings for the third quarter of 2005.
99.2	Statistical Supplement of UnumProvident Corporation for the third quarter of 2005.

style="font-family:inherit;font-size:10pt;">[24].
10.39#

Universal Display Corporation Annual Incentive Plan [25]
10.40#

Form Agreement - Restricted Stock Unit Grant Letter [26]
10.41#

Form Agreement - Performance Unit Grant Letter [26]
10.42#

Universal Display Corporation Equity Compensation Plan [27]
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)

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Exhibit Number	Description
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.)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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.

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(1) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, filed with the SEC on August 8, 2013.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

(7) Filed as an Exhibit to a Current Report on Form 8-K, filed with the SEC on March 21, 2011.

(8) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed with the SEC on May 9, 2012.

(9) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 8, 2012.

(10) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed with the SEC on May 9, 2013.

(11) 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.

(12) 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.

(13) 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.

(14) 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.

(15) 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.

(16) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, filed with the SEC on November 8, 2011.

(17) Filed as an Exhibit to an Amended Current Report on Form 8-K, filed with the SEC on December 19, 2011.

(18) 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.

(19) 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.

(20) 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.

(21) 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.

(22) Filed as an Exhibit to Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, filed with the SEC on January 27, 2012.

(23) Filed as an Exhibit to a Current Report on Form 8-K, filed with the SEC on July 27, 2012.

(24) Filed as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, filed with the SEC on November 7, 2013.

(25) Filed as an Exhibit to a Current Report on Form 8-K, filed with the SEC on June 24, 2013.

(26) Filed as an Exhibit to the Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 28, 2014.

(27) Filed as Exhibit A to the Company's Definitive Proxy Statement for the 2014 Annual Meeting filed with the SEC on April 25, 2014.

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.

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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: February 26, 2015

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 Sherwin I. Seligsohn	Founder and Chairman of the Board of Directors	February 26, 2015
/s/ Steven V. Abramson Steven V. Abramson	President, Chief Executive Officer and Director (principal executive officer)	February 26, 2015
/s/ Sidney D. Rosenblatt Sidney D. Rosenblatt	Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director (principal financial and accounting officer)	February 26, 2015
/s/ Leonard Becker Leonard Becker	Director	February 26, 2015
/s/ Elizabeth H. Gemmill Elizabeth H. Gemmill	Director	February 26, 2015
/s/ C. Keith Hartley C. Keith Hartley	Director	February 26, 2015
/s/ Lawrence Lacerte Lawrence Lacerte	Director	February 26, 2015
/s/ Richard C. Elias Richard C. Elias	Director	February 26, 2015

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
Consolidated Financial Statements:

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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, 2014 based upon criteria in Internal Control — Integrated Framework (2013) 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, 2014, based on the criteria in Internal Control-Integrated Framework (2013) issued by COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2014, 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
President and Chief Executive Officer

Sidney D. Rosenblatt
Executive Vice President and Chief Financial Officer

February 26, 2015

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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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 26, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 26, 2015

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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, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 26, 2015

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$45,418	$70,586
Short-term investments	243,088	202,024
Accounts receivable	22,075	15,657
Inventories	37,109	10,595
Deferred income taxes	18,459	21,563
Other current assets	4,356	6,623
Total current assets	370,505	327,048
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $24,813 and $22,756	19,922	14,893
ACQUIRED TECHNOLOGY, net of accumulated amortization of $43,838 and $32,841	83,014	94,011
INVESTMENTS	3,047	7,417
DEFERRED INCOME TAXES	12,934	19,143
OTHER ASSETS	425	242
TOTAL ASSETS	$489,847	$462,754
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$9,260	$5,256
Accrued expenses	14,986	16,039
Deferred revenue	2,466	1,910
Other current liabilities	111	24
Total current liabilities	26,823	23,229
DEFERRED REVENUE	3,366	2,403
RETIREMENT PLAN BENEFIT LIABILITY	10,916	9,436
Total liabilities	41,105	35,068
COMMITMENTS AND CONTINGENCIES (Note 14)		
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)	2	2
Common Stock, par value $0.01 per share, 100,000,000 shares authorized, 47,061,826 and 46,825,168 shares issued at December 31, 2014 and 2013, respectively	471	468
Additional paid-in capital	581,114	572,401
Accumulated deficit	(88,305)	(130,159)
Accumulated other comprehensive loss	(4,382)	(4,368)
Treasury stock, at cost (1,357,863 and 401,501 shares at December 31, 2014 and 2013, respectively)	(40,158)	(10,658)
Total shareholders' equity	448,742	427,686
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$489,847	$462,754

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

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	Year Ended December 31,		
	2014	2013	2012
REVENUE:			
Material sales	$126,885	$95,713	$44,472
Royalty and license fees	63,192	47,006	31,698
Technology development and support revenue	954	3,920	7,074
Total revenue	191,031	146,639	83,244
OPERATING EXPENSES:			
Cost of material sales	41,315	28,889	4,528
Research and development	41,154	34,215	30,032
Selling, general and administrative	28,135	24,745	19,550
Patent costs and amortization of acquired technology	17,288	17,273	13,385
Royalty and license expense	4,519	3,273	2,073
Total operating expenses	132,411	108,395	69,568
Operating income	58,620	38,244	13,676
INTEREST INCOME	777	811	1,240
INTEREST EXPENSE	(70)	(47)	(48)
INCOME BEFORE INCOME TAXES	59,327	39,008	14,868
INCOME TAX (EXPENSE) BENEFIT	(17,473)	35,044	(5,208)
NET INCOME	$41,854	$74,052	$9,660
NET INCOME PER COMMON SHARE:			
BASIC	$0.90	$1.61	$0.21
DILUTED	$0.90	$1.59	$0.21
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME PER COMMON SHARE:			
BASIC	46,252,960	45,898,019	45,951,276
DILUTED	46,685,145	46,543,605	46,883,602

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

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
NET INCOME	$41,854	$74,052	$9,660
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX:			
Unrealized loss on available-for-sale securities, net of tax of $3, $4, and none, respectively	(4)	(6)	(31)
Employee benefit plan:			
Actuarial (loss) gain on retirement plan	(385)	901	(442)
Amortization of prior service cost and actuarial loss for retirement plan included in net periodic pension costs, net of tax of $209, $726 and none, respectively	375	439	628
Net change for employee benefit plan	(10)	1,340	186
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(14)	1,334	155
COMPREHENSIVE INCOME	$41,840	$75,386	$9,815

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

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except for share data)

	Series A Nonconvertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Capital			Shares	Amount	
BALANCE, JANUARY 1, 2012	200,000	$2	46,113,296	$461	$561,492	$(213,871)	$(5,857)	—	$—	$342,227
Net income	—	—	—	—	—	9,660	—	—	—	9,660
Other comprehensive income	—	—	—	—	—	—	155	—	—	155
Repurchase of common stock	—	—	—	—	—	—	—	205,902	(5,202)	(5,202)
Exercise of common stock options and warrants, net of tendered shares	—	—	222,549	2	853	—	—	—	—	855
Issuance of common stock to employees, net of shares withheld for employee taxes	—	—	170,584	2	1,123	—	—	—	—	1,125
Issuance of common stock to Board of Directors and Scientific Advisory Board	—	—	43,341	—	1,094	—	—	—	—	1,094
Issuance of common stock to employees under an Employee Stock Purchase Plan (ESPP)	—	—	11,667	—	321	—	—	—	—	321
BALANCE, DECEMBER 31, 2012	200,000	2	46,561,437	465	564,883	(204,211)	(5,702)	205,902	(5,202)	350,235
Net income	—	—	—	—	—	74,052	—	—	—	74,052
Other comprehensive income	—	—	—	—	—	—	1,334	—	—	1,334
	—	—	—	—	—	—	—	195,599	(5,456)	(5,456)

Repurchase of common stock										
Exercise of common stock options and warrants, net of tendered shares	—	—	223,714	2	2,556	—	—	—	—	2,558
Issuance of common stock to employees, net of shares withheld for employee taxes	—	—	(13,502)	—	3,519	—	—	—	—	3,519
Issuance of common stock to Board of Directors and Scientific Advisory Board	—	—	39,153	1	1,100	—	—	—	—	1,101
Issuance of common stock to employees under an ESPP	—	—	14,366	—	343	—	—	—	—	343
BALANCE, DECEMBER 31, 2013	200,000	2	46,825,168	468	572,401	(130,159)	(4,368)	401,501	(10,658)	427,686
Net income	—	—	—	—	—	41,854	—	—	—	41,854
Other comprehensive loss	—	—	—	—	—	—	(14)	—	—	(14)
Repurchase of common stock	—	—	—	—	—	—	—	956,362	(29,500)	(29,500)
Exercise of common stock options, net of tendered shares	—	—	184,798	3	1,884	—	—	—	—	1,887
Issuance of common stock to employees	—	—	83,834	1	8,026	—	—	—	—	8,027
Shares withheld for employee taxes	—	—	(83,831)	(1)	(2,843)	—	—	—	—	(2,844)
Issuance of common stock to Board of Directors and Scientific Advisory Board	—	—	39,484	—	1,318	—	—	—	—	1,318
Issuance of common stock to employees	—	—	12,373	—	328	—	—	—	—	328

under an ESPP										
BALANCE, DECEMBER 31, 2014	200,000	$2	47,061,826	$471	$581,114	$(88,305)	$(4,382)	1,357,863	$(40,158)	$448,742

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

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$41,854	$74,052	$9,660
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred revenue	(4,274)	(5,880)	(5,284)
Depreciation	2,077	2,044	1,978
Amortization of intangibles	10,997	10,973	4,869
Amortization of premium and discount on investments, net	(531)	(458)	(778)
Stock-based compensation to employees	7,278	6,077	4,263
Stock-based compensation to Board of Directors and Scientific Advisory Board	995	809	781
Deferred income tax expense (benefit)	9,108	(41,418)	(11)
Retirement plan benefit expense	1,679	1,665	1,600
(Increase) decrease in assets:			
Accounts receivable	(6,418)	(7,000)	2,070
Inventories	(26,514)	424	(7,175)
Other current assets	2,267	(2,706)	(2,284)
Other assets	(183)	35	33
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	3,055	3,614	4,718
Other current liabilities	87	(11)	11
Deferred revenue	5,793	2,767	3,303
Net cash provided by operating activities	47,270	44,987	17,754
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(6,153)	(4,710)	(2,737)
Additions to intangibles	—	(359)	(109,102)
Purchases of investments	(408,974)	(362,838)	(304,500)
Proceeds from sale of investments	372,818	313,132	380,253
Net cash used in investing activities	(42,309)	(54,775)	(36,086)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	328	343	321
Repurchase of common stock	(29,500)	(5,456)	(5,202)
Proceeds from the exercise of common stock options and warrants	1,887	2,832	1,483
Payment of withholding taxes related to stock-based employee compensation	(2,844)	(3,268)	(4,142)
Net cash used in financing activities	(30,129)	(5,549)	(7,540)
DECREASE IN CASH AND CASH EQUIVALENTS	(25,168)	(15,337)	(25,872)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	70,586	85,923	111,795
CASH AND CASH EQUIVALENTS, END OF YEAR	$45,418	$70,586	$85,923

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

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UNIVERSAL DISPLAY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS:

Universal Display Corporation (the Company) is a leader in the research, development and commercialization of organic light emitting diode (OLED) technologies and materials. OLEDs are thin, lightweight and power-efficient solid-state devices that emit light, making them highly suitable for use in full-color displays and as lighting products. OLED displays are capturing a growing share of the display market. The Company believes this is because OLEDs offer potential advantages over competing display technologies with respect to power efficiency, contrast ratio, viewing angle, video response time, form factor and manufacturing cost. The Company also believes that OLED lighting products have the potential to replace many existing light sources in the future because of their high power efficiency, excellent color rendering index, low operating temperature and novel form factor. The Company's technology leadership and intellectual property position should enable it to share in the revenues from OLED displays and lighting products as they enter mainstream consumer and other markets.

The Company's primary business strategy is to (1) further develop and license its proprietary OLED technologies to manufacturers of products for display applications, such as cell phones, portable media devices, wearables, tablets, laptop computers and televisions, and specialty and general lighting products; and (2) develop new OLED materials and sell the materials to those product manufacturers. The Company has established a significant portfolio of proprietary OLED technologies and materials, primarily through internal research and development efforts and acquisitions of patents and patent applications, as well as maintaining its relationships with world-class partners such as Princeton University (Princeton), the University of Southern California (USC), the University of Michigan (Michigan) and PPG Industries, Inc. (PPG Industries). The Company currently owns, exclusively licenses or has the sole right to sublicense more than 3,500 patents issued and pending worldwide.

The Company sells its proprietary OLED materials to customers for evaluation and use in commercial OLED products. The Company also enters into agreements with manufacturers of OLED display and lighting products under which it grants them licenses to practice under its patents and to use the Company's proprietary know-how. At the same time, the Company works with these and other companies who are evaluating the Company's OLED technologies and materials for possible use in commercial OLED display and lighting products.

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., Universal Display Corporation Korea, Y.H., Universal Display Corporation Japan, G.K. and UDC Ireland Limited. 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 areas of revenue recognition for license agreements, the useful life of acquired technology, the use and recoverability of inventories, income taxes including realization of deferred tax assets, stock-based compensation and retirement benefit plan liabilities. Actual results could differ from those estimates.

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Cash, Cash Equivalents and 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 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. Investments at December 31, 2014 and 2013 consist of the following (in thousands):

Investment Classification	Amortized Cost	Unrealized Gains	(Losses)	Aggregate Fair Market Value
December 31, 2014				
Certificates of deposit	$11,373	$4	$(13)	$11,364
Corporate bonds	228,799	14	(41)	228,772
U.S. Government bonds	5,999	—	—	5,999
	$246,171	$18	$(54)	$246,135
December 31, 2013				
Certificates of deposit	$11,358	$2	$(16)	$11,344
Corporate bonds	190,738	33	(48)	190,723
U.S. Government bonds	3,074	—	—	3,074
Convertible notes	4,300	—	—	4,300
	$209,470	$35	$(64)	$209,441

On July 13, 2012, the Company entered into a three-year joint development agreement with Plextronics, Inc. (Plextronics), a private company engaged in printed solar, lighting and other electronics related research and development. The Company invested $4.0 million in Plextronics through the purchase of a convertible promissory note. The note accrued interest at a rate of 3% per year. The note was repaid in full plus interest during the first quarter of 2014. See Fair Value Measurements below for additional information regarding the note.
On July 17, 2012, the Company invested $300,000 in a private company engaged in plasma processing equipment research and development through the purchase of a convertible promissory note. The note accrued interest at a rate of 5% per year. The note was repaid in full plus interest during the second quarter of 2014. See Fair Value Measurements below for additional information regarding the note.
All short-term investments held at December 31, 2014 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. 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 ended December 31, 2014, 2013 and 2012.
Inventories
Inventories consist of raw materials, work-in-process and finished goods, including inventory consigned to customers, and are stated at the lower of cost, determined on a first-in, first-out basis, or market. Inventory valuation and firm committed purchase order assessments are performed on a quarterly basis and those items that are identified to be obsolete or in excess of forecasted usage are written down to their estimated realizable value. Estimates of realizable value are based upon management's analyses and assumptions, including, but not limited to, forecasted sales levels by product, expected product lifecycle, product development plans and future demand requirements. A 12-month rolling forecast based on factors, including, but not limited to, production cycles, anticipated product orders, marketing forecasts, backlog, and shipment activities is used in the forecast. If market conditions are less favorable than forecasts or actual demand from customers is lower than estimates, additional inventory write-downs may be required. If

demand is higher than expected, inventories that had previously been written down may be sold.

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Certain of the Company's customers have assumed the responsibility for maintaining the Company's inventory at their location based on the customers' demand forecast. Notwithstanding the fact that the Company builds and ships the inventory, the customer does not purchase the consigned inventory until the inventory is drawn or pulled by the customer to be used in the manufacture of the customer's product. Though the consigned inventory may be at the customer's physical location, it remains inventory owned by the Company until the inventory is drawn or pulled, which is the time at which the sale takes place.

Fair Value Measurements

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2014 (in thousands):

		Fair Value Measurements, Using		
	Total carrying value as of December 31, 2014	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$970	$970	$—	$—
Short-term investments	243,088	243,088	—	—
Long-term investments	3,047	3,047	—	—

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2013 (in thousands):

		Fair Value Measurements, Using		
	Total carrying value as of December 31, 2013	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$7,600	$7,600	$—	$—
Short-term investments	202,024	202,024	—	—
Long-term investments	7,417	3,117	—	4,300

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. Financial asset or liability classification is determined based on the lowest level input that is significant to the fair value measurement.

The Company's convertible promissory note investments were classified within investments on the consolidated balance sheet and fair value was based on Level 3 inputs.

These convertible promissory note investments are inherently risky as the notes lack a ready market for resale and the note issuer's success is dependent on numerous factors, including, among others, product development, market acceptance, operational efficiency, the ability of the investee companies to raise additional funds in financial markets that can be volatile, and other key business factors. The Company determined the fair value of its convertible promissory note investments portfolio quarterly by performing certain quantitative analyses of identified events or circumstances affecting the investee.

Changes in fair value of the investments are recorded as unrealized gains and losses in other comprehensive income. If a decline in fair value of an investment is deemed to be other than temporary, the cost basis of the Company's investment will be written down by the amount of the other-than-temporary impairment with a resulting charge to net income. There were no other-than-temporary impairments of investments as of December 31, 2014 and 2013.

The following table is a reconciliation of the changes in fair value of the Company's investments in convertible notes for the years ended December 31, 2014 and 2013, which had been classified in Level 3 in the fair value hierarchy (in thousands):

	Year Ended December 31,

	2014	2013
Fair value of notes, beginning of year	$4,300	$4,300
Repayments of notes	(4,300)	—
Fair value of notes, end of year	$—	$4,300

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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 and investments 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, 2014, Company management believed that no revision to the remaining useful lives or write-down of the Company's long-lived assets was required, and similarly, no such revisions were required for the years ended December 31, 2013 or 2012.

Net Income Per Common Share

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

The following table is a reconciliation of net income and the shares used in calculating basic and diluted net income per common share for the years ended December 31, 2014, 2013 and 2012 (in thousands, except share and per share data):

	Year Ended December 31,		
	2014	2013	2012
Numerator:			
Net income	$41,854	$74,052	$9,660
Denominator:			
Weighted average common shares outstanding – Basic	46,252,960	45,898,019	45,951,276
Effect of dilutive shares:			
Common stock equivalents arising from stock options and ESPP	265,129	458,574	648,661
Restricted stock awards and units and performance units	167,056	187,012	283,665
Weighted average common shares outstanding – Diluted	46,685,145	46,543,605	46,883,602
Net income per common share:			
Basic	$0.90	$1.61	$0.21
Diluted	$0.90	$1.59	$0.21

For the year ended December 31, 2014, 2013 and 2012, the combined effects of unvested restricted stock awards, restricted stock units, performance unit awards of 87,894, 140,839, and 212,941, respectively, and the impact of shares to be issued under the ESPP, which was minor, were excluded from the calculation of diluted EPS as their impact would have been antidilutive, or for performance units, as the units would not be issued if the end of the reporting period was the end of the performance period.

Revenue Recognition and Deferred Revenue

Material sales relate to the Company's sale of its OLED materials for incorporation into its customers' commercial OLED products or for their OLED development and evaluation activities. Material sales are recognized at the time of shipment or at time of delivery, and passage of title, depending upon the contractual agreement between the parties.

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The Company receives non-refundable license and royalty payments under certain commercial, development and technology evaluation agreements. These payments may include royalty and license fees made pursuant to license agreements and certain commercial supply agreements. Amounts received are deferred and classified as current and non-current deferred revenue 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, 2014, may not be recognized as revenue over the next twelve months. The Company evaluates these agreements quarterly, and if it is determined that there is no appreciable likelihood of executing a commercial license agreement with the customer or if a customer terminates the relationship prior to the expiration of its term, the previous deferred amount will be recognized as revenue in the corresponding period. For arrangements with extended payment terms where the fee is not fixed and determinable, the Company recognizes revenue when the payment is due and payable. Royalty revenue and license fees included as part of commercial supply agreements are recognized when earned and the amount is fixed and determinable.

Technology development and support revenue is revenue earned from government contracts, development and technology evaluation agreements and commercialization assistance fees, which includes 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.

Currently, the Company's most significant commercial license agreement, which is set to expire by the end of 2017, is with Samsung Display Co., Ltd. (SDC) and covers the manufacture and sale of specified OLED display products. Under this agreement, the Company is being paid a license fee, payable in semi-annual installments over the agreement term of 6.4 years. The installments, which are due in the second and fourth quarter of each year, increase on an annual basis over the term of the agreement. The agreement conveys to SDC the non-exclusive right to use certain of the Company's intellectual property assets for a limited period of time that is less than the estimated life of the assets. Ratable recognition of revenue is impacted by the agreement's extended increasing payment terms in light of the Company's limited history with similar agreements. As a result, revenue is recognized at the lesser of the proportional performance approach (ratable) and the amount of due and payable fees from SDC. Given the increasing contractual payment schedule, license fees under the agreement are recognized as revenue when they become due and payable, which is currently scheduled to be in the second and fourth quarter of each year.

In January 2015, the Company entered into an OLED patent license agreement and an OLED commercial supply agreement with LG Display Co., Ltd. (LG Display), which were effective as of January 1, 2015 and supersede the existing 2007 commercial supply agreement between the parties. The new agreements have a term that is set to expire by the end of 2022. The patent license agreement provides LG Display a non-exclusive, royalty bearing portfolio license to make and sell OLED displays under the Company's patent portfolio. The patent license calls for license fees, prepaid royalties and running royalties on licensed products. The agreements include customary provisions relating to warranties, indemnities, confidentiality, assignability and business terms. The agreements provide for certain other minimum obligations relating to the volume of materials sales anticipated over the life of the agreements as well as minimum royalty revenue to be generated under the patent license agreement. The Company expects to generate revenue under these agreements that are predominantly tied to LG Display sales of OLED licensed products. The OLED commercial supply agreement provides for the sales of materials for use by LG Display, which may include phosphorescent dopants and host materials.

The Company records taxes billed to customers and remitted to various governmental entities on a gross basis in both revenues and cost of material sales in the consolidated statements of income. The amounts of these pass through taxes reflected in revenues and cost of material sales were \$4.3 million, \$178,000 and \$406,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

Included in accounts receivable as of December 31, 2014 and 2013 are unbilled receivables of none and \$92,000, respectively. All amounts are billed and due within one year.

Cost of Material Sales

Cost of material sales represents costs associated with the sale of materials that have been classified as commercial, including shipping costs. Commercial materials are materials that have been validated by the Company for use in commercial OLED products. Prior to their designation as commercial materials, costs incurred related to the materials are included in research and development costs.

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Research and Development

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

	Year Ended December 31,		
	2014	2013	2012
Development and operations in the Company’s facilities	$27,891	$23,491	$21,381
PPG OLED Materials Agreement (Note 8)	10,614	7,470	6,170
Costs incurred under sponsored research agreements	2,014	2,671	2,058
Scientific Advisory Board compensation	635	583	423
	$41,154	$34,215	$30,032

Patent Costs and Amortization of Acquired Technology

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. Amortization costs relate to technology acquired from Fujifilm and Motorola in the years ended December 31, 2012 and 2011, respectively.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions

The Company's reporting currency is the U.S. dollar. The functional currency for the Company's Ireland subsidiary is also the U.S. dollar and the functional currency for each of the Company's Asia-Pacific foreign subsidiaries is its local currency. The Company translates the amounts included in the consolidated statements of income from its Asia-Pacific foreign subsidiaries into U.S. dollars at weighted-average exchange rates, which the Company believes are representative of the actual exchange rates on the dates of the transactions. The Company's foreign subsidiaries' assets and liabilities are translated into U.S. dollars from the local currency at the actual exchange rates as of the end of each reporting date, and the Company records the resulting foreign exchange translation adjustments in the consolidated balance sheets as a component of accumulated other comprehensive loss. The overall effect of the translation of foreign currency and foreign currency transactions to date has been insignificant.

Statement of Cash Flow Information

The following non-cash activities occurred (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Unrealized (loss) gain on available-for-sale securities	$(7)	$(10)	$(31)
Common stock issued to Board of Directors and Scientific Advisory Board that was earned in a previous period	323	315	328
Common stock issued to employees that was accrued for in a previous period	749	282	252
Property and equipment purchases included in accounts payable	965	420	165

During the year ended December 31, 2014, 2013, and 2012, the Company paid cash of approximately $8.0 million, $6.6 million and $5.3 million for income taxes.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount of which the likelihood of realization is greater than 50%. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense.

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Share-Based Payment Awards

The Company recognizes in the statements of income the grant-date fair value of equity based awards such as shares issued under employee stock purchase plans, restricted stock awards, restricted stock units, performance unit awards issued to employees and directors.

The grant-date fair value of stock awards is based on the closing price of the stock on the date of grant. The fair value of share-based awards is recognized as compensation expense on a straight-line basis over the requisite service period, net of forfeitures. The Company issues new shares upon the respective grant, exercise or vesting of the share-based payment awards, as applicable.

Performance unit awards are subject to either a performance-based or market-based vesting requirement. For performance-based vesting, the grant-date fair value of the award, based on fair value of the Company's common stock, is recognized over the service period, based on an assessment of the likelihood that the applicable performance goals will be achieved and compensation expense is periodically adjusted based on actual and expected performance. Compensation expense for performance unit awards with market-based vesting is calculated based on the estimated fair value as of the grant date utilizing a Monte Carlo simulation model and is recognized over the service period on a straight-line basis.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new revenue recognition standard entitled “Revenue from Contracts with Customers.” The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows from a contract with a customer. The standard is effective for annual reporting periods beginning after December 15, 2016, which for the Company will commence with the year beginning January 1, 2017. Earlier application is not permitted. The standard allows for either “full retrospective” adoption, meaning the standard is applied to all periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently assessing which method it will choose for adoption, and is evaluating the impact of the adoption of this new accounting standard on its consolidated results of operations and 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 (the 1997 Research Agreement). The principal investigator conducting work under the 1997 Research Agreement transferred to Michigan in January 2006. Following this transfer, the 1997 Research Agreement was allowed to expire on July 31, 2007.

As a result of the transfer, the Company entered into a new Sponsored Research Agreement with USC to sponsor OLED technology research at USC and, on a subcontractor basis, Michigan. This new Sponsored Research Agreement (as amended, the 2006 Research Agreement) was effective as of May 1, 2006 and had an original term of three years. On May 1, 2009, the Company amended the 2006 Research Agreement to extend the term of the agreement for an additional four years. The 2006 Research Agreement superseded the 1997 Research Agreement with respect to all work being performed at USC and Michigan. Payments under the 2006 Research Agreement were made to USC on a quarterly basis as actual expenses were incurred. The Company incurred a total of $5.0 million in research and development expense for work performed under the 2006 Research Agreement during the extended term, which ended on April 30, 2013.

Effective June 1, 2013, the Company amended the 2006 Research Agreement again to extend the term of the agreement for an additional four years. As of December 31, 2014, the Company is obligated to pay USC up to $5.8 million for work to be actually performed during the remaining extended term, which expires April 30, 2017. From June 1, 2013 through December 31, 2014, the Company incurred $1.8 million in research and development expense for work performed under the newly 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 1997 Amended License 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.

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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 recorded royalty expense in connection with this agreement of $4.5 million, $3.2 million and $2.1 million for the years ended December 31, 2014, 2013 and 2012, 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. INVENTORIES:

Inventories consisted of the following (in thousands):

	December 31,	
	2014	2013
Raw materials	7,696	—
Work-in-process	4,419	3,558
Finished goods	24,994	7,037
	37,109	10,595

Inventories included $1.0 million and $1.2 million of inventory consigned to customers at December 31, 2014 and 2013, respectively. During the year ended December 31, 2014, 2013 and 2012, the Company recorded write-downs of inventories of $3.9 million, none, and none respectively. The write-downs for the year ended December 31, 2014 were comprised solely of finished goods inventory, which occurred in the fourth quarter.

5. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (in thousands):

	December 31,	
	2014	2013
Land	$820	$820
Building and improvements	17,631	15,605
Office and lab equipment	23,666	20,055
Furniture and fixtures	506	423
Construction-in-progress	2,112	746
	44,735	37,649
Less: Accumulated depreciation	(24,813)	(22,756)
Property and equipment, net	$19,922	$14,893

Depreciation expense was approximately $2.1 million, $2.0 million and $2.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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6. ACQUIRED TECHNOLOGY:

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

	December 31, 2014	2013
PD-LD, Inc.	$1,481	$1,481
Motorola	15,909	15,909
Fujifilm	109,462	109,462
	126,852	126,852
Less: Accumulated amortization	(43,838)	(32,841)
Acquired technology, net	$83,014	$94,011

Amortization expense for all intangible assets was $11.0 million, $11.0 million and $4.9 million for the years ended December 31, 2014, 2013 and 2012, respectively, and is included in patent costs and amortization of acquired technology expense on the consolidated statements of income.

Motorola Patent Acquisition

In 2000, the Company entered into a royalty-bearing license agreement with Motorola whereby Motorola granted the Company perpetual license rights to what are now 74 issued U.S. patents relating to Motorola's OLED technologies, together with foreign counterparts in various countries. These patents expire in the U.S. between 2014 and 2018.

On March 9, 2011, the Company purchased these patents from Motorola, including all existing and future claims and causes of action for any infringement of the patents, pursuant to a Patent Purchase Agreement. The Patent Purchase Agreement effectively terminated the Company's license agreement with Motorola, including any obligation to make royalty payments to Motorola. The technology acquired from Motorola is being amortized over a period of 7.5 years.

Fujifilm Patent Acquisition

On July 23, 2012, the Company entered into a Patent Sale Agreement (the Agreement) with Fujifilm. Under the Agreement, Fujifilm sold more than 1,200 OLED-related patents and patent applications in exchange for a cash payment of $105.0 million, and costs of $4.5 million were incurred in connection with the purchase. The Agreement contains customary representations and warranties and covenants, including respective covenants not to sue by both parties thereto. The Agreement permitted the Company to assign all of its rights and obligations under the Agreement to its affiliates, and the Company assigned, prior to the consummation of the transactions contemplated by the Agreement, its rights and obligations to UDC Ireland Limited (UDC Ireland), a wholly-owned subsidiary of the Company formed under the laws of the Republic of Ireland. The transactions contemplated by the Agreement were consummated on July 26, 2012. The Company recorded the $105.0 million plus $4.5 million of costs as acquired technology which is being amortized over a period of 10 years.

Amortization expense related to acquired technology is currently expected to be as follows (in thousands):

Year	Projected Expense
2015	$10,999
2016	10,999
2017	10,999
2018	10,999
2019	10,999
Thereafter	28,019
	$83,014

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7. ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	December 31,	
	2014	2013
Compensation	$8,738	$7,977
Royalties	4,454	3,243
Research and development agreements	570	2,158
Professional fees	507	458
Consulting	370	338
Other	347	301
Inventories	—	1,564
	$14,986	$16,039

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8. EQUITY AND CASH COMPENSATION UNDER THE PPG AGREEMENTS:

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

On July 29, 2005, the Company entered into an OLED Materials Supply and Service Agreement with PPG Industries (the OLED Materials Agreement). The OLED Materials Agreement superseded and replaced in their 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.

On September 22, 2011, the Company entered into an Amended and Restated OLED Materials Supply and Service Agreement with PPG Industries (the New OLED Materials Agreement), which replaced the original OLED Materials Agreement with PPG Industries effective as of October 1, 2011. The term of the New OLED Materials Agreement runs through December 31, 2015 and shall be automatically renewed for additional one year terms, unless terminated by the Company by providing prior notice of one year or terminated by PPG by providing prior notice of two years. The New OLED Materials Agreement contains provisions that are substantially similar to those of the original OLED Materials Agreement. Under the New 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.

Under the New OLED Materials Agreement, the Company compensates PPG Industries on a cost-plus basis for the services provided during each calendar quarter. The Company is required to pay for some of these services in all cash. Up to 50% of the remaining services are payable, at the Company’s sole discretion, in cash or shares of the Company’s common stock, with the balance payable in 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 $20.00, the Company is required to compensate PPG Industries in cash. No shares were issued for services to PPG for the years ended December 31, 2014, 2013 and 2012.

The Company is also to reimburse PPG Industries for raw materials used for research and development. The Company records the purchases of these raw materials as a current asset until such materials are used for research and development efforts.

The Company recorded expense of $9.2 million, $7.5 million and $6.2 million for the years ended December 31, 2014, 2013 and 2012, respectively, in relation to the cash portion of the reimbursement of expenses and work performed by PPG Industries, excluding amounts paid for commercial chemicals.

9. 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.

10. SHAREHOLDERS' EQUITY:

Stock Repurchase Program

On November 14, 2012, the Company's Board of Directors approved a stock repurchase program authorizing the Company to purchase shares of its common stock up to a total purchase price of $50.0 million over the subsequent 12 months. During the years ended December 31, 2013 and 2012, the Company purchased 195,599 and 205,902 shares, respectively, at a cost of approximately $5.5 million and $5.2 million, respectively. The repurchase program ended during the quarter ended December 31, 2013.

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On June 2, 2014, the Company's Board of Directors approved an additional stock repurchase program authorizing the Company to purchase shares of its common stock up to a total purchase price of $50.0 million over the subsequent 12 months. Since approval of the program and through December 31, 2014, the Company purchased 956,362 shares, at a cost of approximately $29.5 million.

Scientific Advisory Board, Board of Directors and Employee Awards

In March 2014, 2013 and 2012, respectively, the Company granted a total of 31,301, 22,568 and 16,866 shares of fully vested common stock to employees and non-employee members of the Scientific Advisory Board for services performed in 2013, 2012 and 2011, respectively. The fair value of the shares issued was $749,000, $435,000 and $376,000, respectively, for employees and $323,000, $300,000 and $300,000, respectively, for members of the Board of Directors and non-employee members of the Scientific Advisory Board, which amounts were accrued at December 31, 2013, 2012 and 2011, respectively. In connection with the issuance of these grants, 8,071, 4,672 and 3,070 shares, respectively, with fair values of $271,000, $154,000 and $124,000, respectively, were withheld in satisfaction of employee tax withholding obligations in 2014, 2013 and 2012, respectively.

11. ACCUMULATED OTHER COMPREHENSIVE LOSS:

Amounts related to the changes in accumulated other comprehensive loss were as follows (in thousands):

	Unrealized gain (loss) on marketable securities	Net unrealized loss on retirement plan[2]	Total	Affected line items in the consolidated statement of income
Balance January 1, 2012, net of tax	$13	$(5,870)	$(5,857)	
Other comprehensive loss before reclassification	(31)	(442)	(473)	
Reclassification to net income [1]	—	628	628	Selling, general and administrative and research and development
Change during period	(31)	186	155	
Balance December 31, 2012, net of tax	$(18)	$(5,684)	$(5,702)	
Other comprehensive loss before reclassification	(6)	901	895	
Reclassification to net income [1]	—	439	439	Selling, general and administrative and research and development
Change during period	(6)	1,340	1,334	
Balance December 31, 2013, net of tax	$(24)	$(4,344)	$(4,368)	
Other comprehensive (loss) income before reclassification	(4)	(385)	(389)	
Reclassification to net income [1]	—	375	375	Selling, general and administrative and research and development
Change during period	(4)	(10)	(14)	
Balance December 31, 2014, net of tax	$(28)	$(4,354)	$(4,382)	

(1) The Company reclassified amortization of prior service cost and actuarial loss for its retirement plan from accumulated other comprehensive loss to net income in the amounts of $375,000, $439,000 and $628,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

(2) Refer to Note 13: Supplemental Executive Retirement Plan.

12. STOCK-BASED COMPENSATION:

The Company recognizes in the statements of income the grant-date fair value of equity based awards such as shares issued under employee stock purchase plans, restricted stock awards, restricted stock units, performance unit awards issued to employees and directors.

The grant-date fair value of stock awards is based on the closing price of the stock on the date of grant. The fair value of share-based awards is recognized as compensation expense on a straight-line basis over the requisite service period, net of forfeitures. The Company issues new shares upon the respective grant, exercise or vesting of the share-based payment awards, as applicable.

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Performance unit awards are subject to either a performance-based or market-based vesting requirement. For performance-based vesting, the grant-date fair value of the award, based on fair value of the Company's common stock, is recognized over the service period, based on an assessment of the likelihood that the applicable performance goals will be achieved and compensation expense is periodically adjusted based on actual and expected performance. Compensation expense for performance unit awards with market-based vesting is calculated based on the estimated fair value as of the grant date utilizing a Monte Carlo simulation model and is recognized over the service period on a straight-line basis.

Equity Compensation Plan

In 1995, the Board of Directors of the Company adopted a stock option plan, which was 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. Through December 31, 2014, the Company's shareholders have approved increases in the number of shares reserved for issuance under the Equity Compensation Plan to 10,500,000 and have extended the term of the plan through 2024. At December 31, 2014, there were 3,724,140 shares that remained available to be granted under the Equity Compensation Plan. See the Company's Form 8-K filed on June 20, 2014 for more information regarding changes to the Equity Compensation Plan.

Stock Options

The following table summarizes the stock option activity during the year ended December 31, 2014 for all grants under the Equity Compensation Plan:

	Options	Weighted Average Exercise Price
Outstanding at January 1, 2014	570,483	$10.43
Granted	—	—
Exercised	(184,798)	10.25
Forfeited	—	—
Cancelled	(1,250)	9.88
Outstanding at December 31, 2014	384,435	10.52
Vested and expected to vest	384,435	10.52
Exercisable at December 31, 2014	384,435	$10.52

No stock options were granted during the years ended December 31, 2014, 2013 or 2012.

A summary of stock options outstanding and exercisable by price range at December 31, 2014 is as follows (in thousands, except share and per share data):

	Outstanding and Exercisable			
Exercise Price	Number of Options Outstanding at December 31, 2014	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (A)
$8.14-$10.04	94,365	0.1	$8.33	$1,832
$10.51-$10.68	238,800	1.0	$10.52	$4,116
$12.04-$18.34	51,270	1.72	$14.58	$675
Total	384,435	0.88	$10.52	$6,623

(A) The difference between the stock option's exercise price and the closing price of the common stock at December 31, 2014.

The total intrinsic value of stock awards exercised during the years ended December 31, 2014, 2013 and 2012 was $3.7 million, $4.9 million and $7.5 million, respectively. There was no compensation expense recognized for the years ended December 31, 2014, 2013 and 2012.

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During the years ended December 31, 2014, 2013 and 2012, none, 20,768 and 5,878 shares of common stock, with fair values of none, $1.0 million and $245,000, respectively, were tendered to net share settle the exercise of options. In connection with the exercise of options during the years ended December 31, 2014, 2013 and 2012, none, 7,599 and 15,066 shares, with fair values of none, $274,000 and $628,000, respectively, were withheld in satisfaction of tax withholding obligations.

Stock Awards

The following table summarizes the activity related to restricted stock unit share based payment awards:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested, January 1, 2014	205,578	$34.40
Granted	100,827	31.76
Vested	(92,306)	34.91
Forfeited	(5,986)	33.20
Unvested, December 31, 2014	208,113	$32.93

The weighted average grant-date fair value of restricted stock unit share based payment awards granted was $31.76, $32.80 and $36.28 during the years ended December 31, 2014, 2013 and 2012, respectively.

The following table summarizes the activity related to restricted stock award share based payment awards:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested, January 1, 2014	321,018	$22.35
Granted	31,412	33.40
Vested	(165,559)	22.03
Forfeited	(400)	31.11
Unvested, December 31, 2014	186,471	$24.47

The weighted average grant-date fair value of restricted stock award share based payment awards granted was $33.40, $32.54 and $38.76 during the years ended December 31, 2014, 2013 and 2012, respectively.

Restricted Stock Awards and Units

The Company has issued restricted stock awards and units to employees and non-employee members of the Scientific Advisory Board with vesting terms of one to six years. The fair value is equal to the market price of the Company's common stock on the date of grant for awards granted to employees and equal to the market price at the end of the reporting period for unvested non-employee awards or upon the date of vesting for vested non-employee awards. Expense for restricted stock awards and units 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, 2014, 2013 and 2012, the Company recorded, as compensation charges related to restricted stock awards and units issued to employees and non-employees, selling, general and administrative expense of $3.7 million, $3.8 million and $2.9 million, respectively, and research and development expense of $2.0 million, $1.9 million and $1.3 million, respectively.

In connection with the vesting of restricted stock awards and units during the years ended December 31, 2014, 2013 and 2012, respectively, shares were withheld in satisfaction of tax withholding obligations.

Board of Directors Compensation

The Company has granted restricted stock units to non-employee members of the Board of Directors with vesting terms of approximately one year. The fair value is equal to the market price of the Company's common stock on the date of grant. The restricted stock units are issued and expense is recognized ratably over the vesting period. For the years ended December 31, 2014, 2013 and 2012, the Company recorded, compensation charges for services performed, related to all restricted stock units granted to non-employee members of the Board of Directors, selling, general and administrative expense of $797,000, $525,000 and $532,000, respectively. Restricted stock issued during 2014, 2013 and 2012 was 23,750, 20,000, and 20,000 shares, respectively.

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Fully Vested Stock Grants

For the years ended December 31, 2014, 2013 and 2012, respectively, the Company granted to employees and non-employees none, 123 and 1,755 shares of restricted stock, which shares fully vested as of the date of grant. The Company recorded research and development expense of none, \$3,000 and \$67,000 for the years ended December 31, 2014, 2013 and 2012, respectively, for the fair value of these awards.

Performance Unit Awards

The following table summarizes the activity related to performance unit awards:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested, January 1, 2014	35,776	\$40.17
Granted	36,092	38.67
Vested	—	—
Forfeited	—	—
Unvested, December 31, 2014	71,868	\$39.42

During the years ended December 31, 2014 and 2013, respectively, the Company granted 36,092 and 35,776 performance units, of which 18,044 and 17,888 are subject to a performance-based vesting requirements and 18,048 and 17,888 are subject to a market-based vesting requirements, and will vest over the terms described below. The weighted average grant date fair value of the performance unit awards granted was \$38.67 and \$40.17 during the years ended December 31, 2014 and 2013, respectively, as determined by the Company's common stock on date of grant for the units with performance-based vesting and a Monte-Carlo simulation for the units with market-based vesting.

Each performance unit award is subject to both a performance-vesting requirement (either performance-based or market-based) and a service-vesting requirement. The performance-based vesting requirement is tied to the Company's cumulative revenue growth compared to the cumulative revenue growth of companies comprising the Nasdaq Electronics Components Index, as measured over a specific performance period. The market-based vesting requirement is tied to the Company's total shareholder return relative to the total shareholder return of companies comprising the Nasdaq Electronics Components Index, as measured over a specific performance period. The maximum number of performance units that may vest based on performance is two times the shares granted. Further, if the Company's total shareholder return is negative, the performance units may not vest above the shares granted.

For the years ended December 31, 2014 and 2013, the Company recorded, as compensation charges related to all performance stock units, selling, general and administrative expenses of \$1.4 million and \$453,000, respectively, and research and development expenses of \$408,000 and \$137,000, 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, 2014, 2013 and 2012, the Company issued 12,373, 14,366 and 11,667 shares, respectively, of its common stock under the ESPP, resulting in proceeds of $328,000, $343,000 and $321,000, respectively. For the years ended December 31, 2014, 2013 and 2012, the Company recorded charges of $44,000, $36,000 and $26,000, respectively, to selling, general and administrative expense and $52,000, $71,000 and $78,000, respectively, to research and development expense, related to the ESPP equal to the amount of the discount and the value of the look-back feature.

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13. 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, 2014 there were six 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 the Company’s 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 $3.4 million 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 the year ending December 31, 2015 is $584,000.

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Information relating to the Company's plan is as follows (in thousands):

	Year Ended December 31,	
	2014	2013
Change in benefit obligation:		
Benefit obligation, beginning of year	$9,436	$9,837
Service cost	669	646
Interest cost	426	343
Actuarial loss (gain)	385	(1,390)
Benefit obligation, end of year	10,916	9,436
Fair value of plan assets	—	—
Unfunded status of the plan, end of year	$10,916	$9,436
Current liability	—	—
Noncurrent liability	$10,916	$9,436

The accumulated benefit obligation for the plan was approximately $9.3 million and $8.0 million as of December 31, 2014 and 2013, respectively.

The components of net periodic pension cost were as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Service cost	$669	$646	$601
Interest cost	426	343	371
Amortization of prior service cost	584	584	584
Amortization of loss	—	92	44
Total net periodic benefit cost	$1,679	$1,665	$1,600

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,	
	2014	2013
Discount rate	3.57%	4.51%
Rate of compensation increases	3.50%	3.50%

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

	Year Ended December 31,		
	2014	2013	2012
Discount rate	4.51%	3.49%	4.44%
Rate of compensation increases	3.50%	3.50%	3.50%

Actuarial gains and 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 gains or 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.

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The estimated amounts to be amortized from accumulated other comprehensive loss into the net periodic pension cost in 2015 are as follows (in thousands):

Amortization of prior service cost	$584
Amortization of gain/loss	—
Total	$584

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

Year	Projected Benefits
2015	$—
2016	—
2017	807
2018	845
2019	845
2020-2024	5,765
Thereafter	13,841

14. 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.

In order to manage manufacturing lead times and help ensure adequate material supply, the Company entered into a New OLED Materials Agreement (see note 8) that will allow PPG Industries to procure and produce inventory based upon criteria as defined by the Company. These purchase commitments consist of firm, noncancelable and unconditional commitments. In certain instances, this agreement allows the Company the option to reschedule and adjust the Company's requirements based on its business needs prior to firm orders being placed. As of December 31, 2014 and 2013, the Company had purchase commitments for inventory of $9.1 million and none, respectively.

Patent Related Challenges and Oppositions

Each major jurisdiction in the world that issues patents provides both third parties and applicants an opportunity to seek a further review of an issued patent. The process for requesting and considering such reviews is specific to the jurisdiction that issued the patent in question, and generally does not provide for claims of monetary damages or a review of specific claims of infringement. The conclusions made by the reviewing administrative bodies tend to be appealable and generally are limited in scope and applicability to the specific claims and jurisdiction in question.

The Company believes that opposition proceedings are frequently commenced in the ordinary course of business by third parties who may believe that one or more claims in a patent do not comply with the technical or legal requirements of the specific jurisdiction in which the patent was issued. The Company views these proceedings as reflective of its goal of obtaining the broadest legally permissible patent coverage permitted in each jurisdiction. Once a proceeding is initiated, as a general matter, the issued patent continues to be presumed valid until the jurisdiction's applicable administrative body issues a final non-appealable decision. Depending on the jurisdiction, the outcome of these proceedings could include affirmation, denial or modification of some or all of the originally issued claims. The Company believes that as OLED technology becomes more established and its patent portfolio increases in size, so will the number of these proceedings.

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Below are summaries of certain proceedings that have been commenced against issued patents that are either exclusively licensed to the Company or which are now assigned to the Company. The Company does not believe that the confirmation, loss or modification of the Company's rights in any individual claim or set of claims that are the subject of the following legal proceedings would have a material impact on the Company's materials sales or licensing business or on the Company's consolidated financial statements, including its consolidated statements of income, as a whole. However, as noted within the descriptions, some of the following proceedings involve issued patents that relate to the Company's fundamental phosphorescent OLED technologies and the Company intends to vigorously defend against claims that, in the Company's opinion, seek to restrict or reduce the scope of the originally issued claim, which may require the expenditure of significant amounts of the Company's resources. In certain circumstances, when permitted, the Company may also utilize the proceedings to request modification of the claims to better distinguish the patented invention from any newly identified prior art and/or improve the claim scope of the patent relative to commercially important categories of the invention. The entries marked with an "*" relate to the Company's UniversalPHOLED phosphorescent OLED technology, some of which may be commercialized by the Company.

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), which relates to the Company's FOLED™ flexible OLED technology. 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 are exclusively licensed to the Company by Princeton, and the Company is required to pay all legal costs and fees associated with this proceeding.

On November 26, 2009, the European Patent Office (the EPO) issued its written decision to reject the opposition and to maintain the patent as granted. On April 12, 2010, CDT filed an appeal to the EPO panel decision. On August 19, 2010, the Company filed a timely response to the EPO panel decision. The EPO subsequently schedule an appeal hearing for the first quarter of 2015. On January 6, 2015, CDT withdrew its opposition of the '958 patent. On January 20, 2015, the EPO accepted the withdrawal notice, and issued a notice that the appeal proceedings were closed. The '958 patent is therefore maintained as originally granted.

Opposition to European Patent No. 1449238*

In 2007, Sumation Company Limited (Sumation), a joint venture between Sumitomo and CDT, Merck Patent GmbH, of Darmstadt, Germany, and BASF Aktiengesellschaft, of Mannheim, Germany, filed Notices of Opposition to European Patent No 1449238 (EP '238 patent). The EP '238 patent, which was issued on November 2, 2006, is a European counterpart patent, in part, to U.S. patents 6,830,828; 6,902,830; 7,001,536; 7,291,406; 7,537,844; and 7,883,787; and to pending U.S. patent applications 13/009,001, filed on January 19, 2011, and 13/205,290, filed on August 9, 2011 (hereinafter the “U.S. '828 Patent Family”). They are exclusively licensed to the Company by Princeton, and the Company is required to pay all legal costs and fees associated with this proceeding.

On January 13, 2012, the EPO issued a decision to maintain the patent with claims directed to OLEDs comprising phosphorescent organometallic iridium compounds.

All the parties appealed the EPO's panel decision. An Oral Hearing was held in the EPO on November 22, 2013, in which the EPO Appellate Board reversed the decision of the prior panel and revoked the patent in its entirety. The Company received a final written decision on February 21, 2014.

Opposition to European Patent No. 1394870*

On April 20, 2010, Merck Patent GmbH; BASF Schweitz AG of Basel, Switzerland; Osram GmbH of Munich, Germany; Siemens Aktiengesellschaft of Munich, Germany; and Koninklijke Philips Electronics N.V., of Eindhoven, The Netherlands filed Notices of Opposition to European Patent No. 1394870 (the EP '870 patent). The EP '870 patent, which was issued on July 22, 2009, is a European counterpart patent, in part, to U.S. patents 6,303,238; 6,579,632; 6,872,477; 7,279,235; 7,279,237; 7,488,542; 7,563,519; and 7,901,795; and to pending U.S. patent application 13/035,051, filed on February 25, 2011 (hereinafter the “U.S. '238 Patent Family”). They are exclusively licensed to the Company by Princeton, and the Company is required to pay all legal costs and fees associated with this proceeding.

An Oral Hearing was held before an EPO panel of first instance in Munich, German, on April 8-9, 2014. The panel rejected the original claims and amended the claims to comply with EPO requirements by more narrowly defining the scope of the claims. The '870 patent, in its amended form, was held by the panel to comply with the EPO requirements.

The Company believes the EPO's decision relating to the broad original claims is erroneous and has appealed the ruling to reinstate a broader set of claims. This patent, as originally granted by the EPO, is deemed valid during the pendency of the appeals process.

At this time, based on the Company's current knowledge, the Company believes there is a substantial likelihood that the patent being challenged will be declared valid and that all or a significant portion of the Company's claims will be upheld. However, the Company cannot make any assurances of this result.

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

On May 24, 2010, the Company received Notices of Invalidation Trials against Japan Patent Nos. 4357781 (the JP '781 patent) and 4358168 (the JP '168 patent), which were both issued on August 14, 2009. The requests were filed by Semiconductor Energy Laboratory Co., Ltd. (SEL). The JP '781 and JP '168 patents are Japanese counterpart patents, in part, to the above-noted U.S. '828 Patent Family. They are exclusively licensed to the Company by Princeton, and the Company is required to pay all legal costs and fees associated with this proceeding.

On March 31, 2011, the Company learned that the Japanese Patent Office (JPO) had issued decisions finding all claims in the JP '781 and JP '168 patents invalid.

Both parties appealed this matter to the Japanese IP High Court. On November 7, 2012, the Company was notified that the Japanese IP High Court had reversed the JPO's finding of invalidity and remanded the case back to the JPO for further consideration.

In a decision reported to the Company on April 15, 2013, all claims in the Company's JP '781 and JP '168 patents were upheld as valid by the JPO. The Company's opponent appealed this decision.

Invalidation Trial in Japan for Japan Patent No. 4511024*

On June 16, 2011, the Company learned that a Request for an Invalidation Trial was filed in Japan for its Japanese Patent No. JP-4511024 (the JP '024 patent), which issued on May 14, 2010. The Request was filed by SEL, the same opponent as in the above-noted Japanese Invalidation Trials for the JP '781 and JP '168 patents. The JP '024 patent is a counterpart patent, in part, to the U.S. '238 Patent Family, which relate to the EP '870 patent, which is subject to one of the above-noted European oppositions and which relates to the Company's UniversalPHOLED phosphorescent OLED technology. They are exclusively licensed to the Company by Princeton, and the Company is required to pay all legal costs and fees associated with this proceeding.

On May 10, 2012, the Company learned that the JPO issued a decision upholding the validity of certain claimed inventions in the JP '024 Patent but invalidating the broadest claims in the patent. The Company appealed the JPO’s decision to the Japanese IP High Court. On October 31, 2013, the Japanese IP High Court ruled that the prior art references relied on by the JPO did not support the JPO’s findings, reversed the JPO’s decision with respect to the previously invalidated broad claims in the JP ‘024 patent and remanded the matter back to the JPO for further consideration consistent with its decision. The JPO subsequently issued a decision upholding the validity of certain claimed inventions in the JP '024 Patent but invalidating the broadest claims in the patent. The Company appealed the decision to reinstate a broader set of claims. This patent, as originally granted by the JPO, is deemed valid during the pendency of the appeals process.

At this time, based on its current knowledge, the Company believes that the patent being challenged should be declared valid and that all or a significant portion of the Company's claims should be upheld. However, the Company cannot make any assurances of this result.

Opposition to European Patent No. 1252803*

On July 12 and 13, 2011, Sumitomo, Merck Patent GmbH and BASF SE, of Ludwigshaven, Germany filed oppositions to the Company's European Patent No. 1252803 (the EP '803 patent). The EP '803 patent, which was issued on October 13, 2010, is a European counterpart patent, in part, to the U.S. '828 Patent Family. They are exclusively licensed to the Company by Princeton, and the Company is required to pay all legal costs and fees associated with this proceeding.

On December 7, 2012, the EPO rendered a decision at an Oral Hearing wherein it upheld the broadest claim of the granted patent. All three opponents filed an appeal and an Oral Hearing is scheduled for the first quarter of 2015. In January 2015, Sumitomo withdrew its opposition of the '803 patent. The EPO accepted the withdrawal notice, and issued a notice that the appeal proceedings will proceed with the two remaining opponents.

At this time, based on its current knowledge, the Company 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 further upheld on appeal. However, the Company cannot make any assurances of this result.

Opposition to European Patent No. 1390962

On November 16, 2011, Osram AG and BASF SE each filed a Notice of Opposition to European Patent No. 1390962 (EP '962 patent), which relates to the Company's white phosphorescent OLED technology. The EP '962 patent, which was issued on February 16, 2011, is a European counterpart patent to U.S. patents 7,009,338 and 7,285,907. They are exclusively licensed to the Company by Princeton, and the Company is required to pay all legal costs and fees associated with this proceeding.

The EPO combined the oppositions into a single opposition proceeding, and a hearing on this matter has been scheduled for the second quarter of 2015.

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

Opposition to European Patent No. 1933395*

On February 24 and 27, 2012, Sumitomo, Merck Patent GmbH and BASF SE filed oppositions to the Company's European Patent No. 1933395 (the EP '395 patent). The EP '395 patent is a counterpart patent to the above-noted JP '168 patent, and, in part, to the U.S. '828 Patent Family. This patent is exclusively licensed to the Company by Princeton, and the Company is required to pay all legal costs and fees associated with this proceeding.

At an Oral Hearing on October 14, 2013, the EPO panel issued a decision that affirmed the basic invention and broad patent coverage in the EP '395 patent, but narrowed the scope of the original claims.

On February 26, 2014, the Company appealed the ruling to reinstate a broader set of claims. The patent, as originally granted by the EPO, is deemed to be valid during the pendency of an appeals process. Two of the three opponents also filed their own appeals of the ruling. Sumitomo withdrew its opposition of the '395 patent, and the EPO accepted the withdrawal notice. The EPO also issued a notice that the appeal proceedings will proceed with the two remaining opponents.

In addition to the above proceedings, from time to time, the Company may have other proceedings that are pending which relate to patents the Company acquired as part of the Fuji Patent acquisition or which to relate to technologies that are not currently widely utilized in the marketplace.

15. CONCENTRATION OF RISK:

Included in technology development and support revenue in the accompanying statement of operations is \$0.1 million, \$1.1 million and \$3.4 million for the years ended December 31, 2014, 2013 and 2012, respectively, of revenue which was derived from contracts with United States government agencies. Revenues derived from contracts with United States government agencies represented approximately less than 1%, 1% and 4% of the consolidated revenue for the years ended December 31, 2014, 2013 and 2012, respectively.

Revenues and accounts receivable from the Company's largest non-government customers for the years ended December 31 were as follows (in thousands):

Customer	2014		2013		2012	
	% of Total Revenue(1)	Accounts Receivable	% of Total Revenue(1)	Accounts Receivable	% of Total Revenue(1)	Accounts Receivable
A	54%	$8,550	60%	$7,337	68%	$6,257
B	19%	7,598	9%	4,743	6%	—
C	18%	953	22%	2,905	5%	867

(1) Materials sold to Customer C are eventually purchased by Customer A.

Revenues from outside of North America represented approximately 99%, 99% and 95% of the consolidated revenue for the years ended December 31, 2014, 2013 and 2012, respectively. Revenues by geographic area are as follows (in thousands):

Country	2014	2013	2012
South Korea	$141,922	$102,948	$61,960
Japan	44,903	40,539	13,666
Taiwan	1,596	904	3,074
Other non-U.S. locations	1,904	696	651
Total non-U.S. locations	190,325	145,087	79,351
United States	706	1,552	3,893
Total revenue	$191,031	$146,639	$83,244

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

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Long-lived assets (net), by geographic area are as follows (in thousands):

	2014	2013
United States	$19,763	$14,660
Other	159	233
Total long-lived assets	$19,922	$14,893

Substantially all chemical materials were purchased from one supplier. See Note 8.

16. INCOME TAXES:

The components of income before income taxes are as follows (in thousands):

	Year ended December 31,		
	2014	2013	2012
United States	$60,485	$57,258	$20,069
Foreign	(1,158)	(18,250)	(5,201)
Income before income tax	$59,327	$39,008	$14,868

The components of the income tax benefit (expense) are as follows (in thousands):

	Year ended December 31,		
	2014	2013	2012
Current income tax benefit (expense):			
Federal	$—	$226	$(225)
State	(2)	—	—
Foreign	(8,363)	(6,600)	(4,994)
	(8,365)	(6,374)	(5,219)
Deferred income tax (expense) benefit:			
Federal	(9,652)	(16,811)	—
State	575	(1,192)	—
Foreign	(31)	69	11
	(9,108)	(17,934)	11
Adjustments to the beginning-of-year valuation allowance	—	59,352	—
Income tax benefit (expense)	$(17,473)	$35,044	$(5,208)

Reconciliation of the statutory U.S. federal tax rate to the Company's effective tax rate is as follows:

	Year ended December 31,		
	2014	2013	2012
Statutory U.S. federal income tax rate	35.0 %	35.0 %	34.0 %
State income taxes, net of federal benefit	(0.4)%	(1.3)%	(2.3)%
State apportionment change	— %	0.3 %	23.8 %
U.S. federal rate change	— %	(3.6)%	— %
Effect of foreign operations	0.7 %	10.9 %	7.1 %
Subpart F income	(4.5)%	15.6 %	— %
Nondeductible employee compensation	0.5 %	2.3 %	4.2 %
Research tax credits	(2.5)%	(3.4)%	— %
Change in valuation allowance	(0.4)%	(146.4)%	(29.3)%
Other	1.0 %	0.8 %	(2.5)%
Effective tax rate	29.4 %	(89.8)%	35.0 %

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As of December 31, 2014, the Company had net operating loss and credit carry forwards. The Company’s net operating loss carry forwards below differ from the Company's accumulated deficit principally due to the timing of the recognition of certain revenues and expenses. A portion of the Company’s net operating loss carry forwards relates to tax deductions from stock-based compensation that will be accounted for as an increase to additional paid-in capital for financial reporting purposes to the extent such future deductions are utilized by the Company (see below). Pursuant to Internal Revenue Code (IRC) sections 382 and 383, utilization of the Company’s federal and state net operating loss and tax credit carry forwards could be subject to an annual limitation because of certain ownership changes.

The following table summarizes Company tax loss and tax credit carry forwards for tax return purposes at December 31, 2014 (in thousands):

	Related Tax Deduction	Tax Benefit	Expiration Date
Loss carry forwards:			
Federal net operating loss	$22,348	$7,822	2028 to 2031
Foreign net operating loss	19,315	2,425	n/a
Total loss carry forwards	$41,663	$10,247	
Tax credit carry forwards:			
Research tax credits	n/a	$12,416	2020 to 2034
Foreign tax credits	n/a	22,076	2020 to 2024
State research tax credits	n/a	2,896	2022 to 2029
Total credit carry forwards	n/a	$37,388	

This tables includes $72.3 million (tax benefit of $25.8 million) related to excess tax benefits which are not included in deferred tax assets on the consolidated balance sheet and are not recognized until the deduction reduces taxes payable (see below).

Significant components of the Company's net deferred tax assets and liabilities are as follows (in thousands):

	December 31, 2014	2013
Deferred tax asset:		
Net operating loss carry forwards	$2,425	$6,280
Capitalized technology license	2,146	2,519
Capitalized research expenditures	12,227	14,012
Accruals and reserves	3,021	2,172
Retirement plan	3,761	3,315
Deferred revenue	541	1,393
Tax credit carry forwards	19,395	26,965
Stock-based compensation	2,060	1,389
Other	1,589	1,329
	47,165	59,374
Valuation allowance	(12,372)	(12,598)
Deferred tax assets	34,793	46,776
Deferred tax liability:		
Subpart F income	(3,400)	(6,070)
Deferred tax liabilities	(3,400)	(6,070)
Net deferred tax assets	$31,393	$40,706

During 2014, the Company retained the valuation allowance that relates to UDC Ireland, U.S. foreign tax credits and New Jersey research and development credits.

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Deferred tax assets and the gross valuation allowance, and the resulting reconciliation of the statutory U.S. federal tax rate to the Company's effective tax rate, previously reported in 2012 have been adjusted to exclude the impact of the windfall tax benefits that were previously reflected as a deferred tax asset, as well as to adjust the net deferred tax assets for additional stock-based compensation related items. The adjustments had no effect on consolidated net income or the consolidated balance sheet as previously reported.

During the years ended December 31, 2014, 2013 and 2012, the Company paid foreign taxes on South Korean royalty and license fee income of $8.3 million, $6.6 million and $4.9 million, respectively, which were recorded as current income tax expense. For periods prior to May 2010, the Company filed for and was granted a five year exemption on withholding tax on royalty payments received from SDC under its patent license agreement as part of a tax incentive program in South Korea. The exemption was granted in May 2005 and remained in effect until May 2010. Since then, SDC has been required to withhold tax at a rate of 16.5% upon payment of royalties and license fees to the Company.

The Company has elected to recognize as earnings taxable in the United States, and to record related deferred tax liabilities with respect to, deferred Subpart F earnings related to foreign subsidiaries in the period the Subpart F earnings are generated, even though the income is not currently taxable based upon current tax laws which limit Subpart F income to the amount of earnings and profits of the subsidiary. During the year ended December 31, 2013, the Company recorded U.S. income tax expense and a corresponding deferred tax liability of $6.1 million for future recapture of the earnings for activities of UDC Ireland which currently has a deficit in earning and profits. During the year ended December 31, 2014, this amount has been reduced to $3.4 million.

Due to the Company's net operating loss position, deferred tax assets relating to tax benefits of employee stock-based compensation have been reduced related to stock options exercised and restricted stock vested for which the tax deduction exceeded the aggregate compensation expense recorded for financial reporting purposes. Although these additional tax benefits or windfalls are reflected in net operating loss carryforwards in the tax return, the additional tax benefit associated with the windfalls is not recognized until the deduction reduces taxes payable. The Company follows the “with and without” approach (excluding indirect tax effects to items such as R&D credits) described in ASC 740 Income Taxes which gives primacy to continuing operations in determining realized tax benefits. Under the with and without approach, the excess tax benefit of deductions from stock-based compensation is reflected as an increase in additional paid-in capital only if an incremental benefit is provided after considering all other tax attributes available to the Company. Accordingly, windfall tax benefits are not considered to offset current year taxable income and a benefit is not recorded in paid-in-capital if the amount of available net operating loss and tax credit carryforwards generated from continuing operations is sufficient to offset current year taxable income before considering windfall tax benefits. Given the Company's net operating loss carry forward position, no incremental benefit has been recognized in paid-in capital for such excess tax benefits.

When recognizing deferred tax assets for employee stock based awards that may be subject to limitation under IRC Section 162(m), and calculating the resulting windfall benefit, the Company prioritizes the impact of future cash compensation over stock-based compensation. Accordingly, if the anticipated cash compensation is equal to or greater than the total tax deductible annual compensation amount for a covered employee, the Company does not record a deferred tax asset associated with any stock-based compensation for that individual. As noted above, in accounting for the indirect effect of stock-based compensation on the Company's research tax credits, the Company does not set apart these credits when measuring the windfall tax benefit; instead the Company follows the practice of recognizing the full effect of research tax credits in income from continuing operations. As of December 31, 2014 and 2013, windfalls included in net operating loss carryforwards and tax credit carryforwards but not reflected in deferred tax assets totaled $72.3 million and $68.6 million, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the Company's ability to generate future taxable income to obtain benefit from the reversal of temporary differences, net operating loss carryforwards and tax credits. As part of its assessment management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. During the year ended December 31, 2014, based on previous earnings history, a current evaluation of expected future taxable income and other evidence, the Company retained the valuation allowance that relates to UDC Ireland, U.S. foreign

tax credits and New Jersey research and development credits. The Company's valuation allowance decreased by $226,000, $57.1 million and $4.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.
The Company did not record a liability for uncertain tax positions as of December 31, 2014, 2013, and 2012, respectively. 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 2011 through 2013 are open tax years and are subject to examination by the Internal Revenue Service. State tax years 2010 to 2013 remain open to examination by the jurisdictions (Pennsylvania and New Jersey) in which the Company is subject to tax. However, due to the Company's net operating losses, the Company's federal income tax returns for 1995 and later will remain subject to examination until the losses are utilized or expire; certain state returns remain subject to examination as well. In addition, the Company's foreign returns for 2010 and thereafter remain subject to examination.

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17. DEFINED CONTRIBUTION PLAN:
The Company maintains the Universal Display Corporation 401(k) Plan (the Plan) in accordance with the provisions of Section 401(k) of the Internal Revenue Code (the 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, 2014, 2013 and 2012, the Company contributed $320,000, $290,000 and $270,000, respectively, to the Plan.
18. 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, 2014. 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.
Presented below is a summary of the unaudited quarterly financial information for the year ended December 31, 2014 (in thousands, except per share data):

	Three Months Ended				
	March 31, 2014	June 30, 2014 (1)	September 30, 2014	December 31, 2014 (1)	Total
Revenue	$37,839	$64,127	$32,892	$56,173	$191,031
Net income	$4,022	$20,422	$4,284	$13,126	$41,854
Net income per common share:					
Basic	$0.09	$0.44	$0.09	$0.29	$0.90
Diluted	$0.09	$0.44	$0.09	$0.28	$0.90

(1) The Company receives significant license revenue in the second and fourth quarters; see Note 2 for further details.
Presented below is a summary of the unaudited quarterly financial information for the year ended December 31, 2013 (in thousands, except per share data):

	Three Months Ended					
	March 31, 2013	June 30, 2013 (1)	September 30, 2013	December 31, 2013 (1)		Total
Revenue	$14,976	$49,359	$32,826	$49,478	(2)	$146,639
Net (loss) income	$(4,758)	$15,382	$5,542	$57,886	(3)	$74,052
Net (loss) income per common share:						
Basic	$(0.10)	$0.34	$0.12	$1.26		$1.61
Diluted	$(0.10)	$0.33	$0.12	$1.24		$1.59

(1) The Company receives significant license revenue in the second and fourth quarters; see Note 2 for further details.
(2) Includes $1.5 million of revenue that was recognized relating to cash payments received in a prior year that were creditable against license fees and/or royalties for which the Company determined there was no appreciable likelihood of executing a commercial license agreement with the customer (see Note 2).
(3) During the three months ended December 31, 2013, the Company released income tax valuation allowances of $59.4 million.
Per share amounts for each quarter have been calculated separately. Accordingly, quarterly amounts may not add to annual amounts.