# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2007-08-14** | Period of Report: **2007-06-30**
**SEC Accession No.** 0001193125-07-182889



## FILER

**Cambridge Display Technology, Inc.**
CIK:**1297968**| IRS No.: **134085264** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-51079** | Film No.: **071056426**
SIC: **3674** Semiconductors & related devices

Mailing Address
*160 GREENTREE DRIVE, SUITE 101*
*DOVER DE 19904*

Business Address
*2020 CAMBOURNE BUSINESS PARK*
*CAMBOURNE*
*CAMBRIDGE X0 CB3 6DW*
*011 44 1954 713600*

Table of Contents

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

# FORM 10-Q

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

**For the quarterly period ended June 30, 2007**

**or**

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

**For the transition period from ______ to______**

**Commission File Number: 000-51079**

# CAMBRIDGE DISPLAY TECHNOLOGY, INC.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **13-4085264** |
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |

**c/o Cambridge Display Technology Limited**
**2020 Cambourne Business Park**
**Cambridge CB23 6DW, United Kingdom**
**(Address of principal executive offices)**

**011-44-1954-713-600**
**(Registrant' s telephone number, including area code)**

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

The number of outstanding shares of the registrant’ s Common Stock, par value $0.01 per share, was 21,631,703 as of August 14, 2007.

**CAMBRIDGE DISPLAY TECHNOLOGY, INC.**

**INDEX**


| | | Page |
|---|---|---|
| **PART I: FINANCIAL INFORMATION** | | |
| **Item 1.** | Financial Statements | 1 |
| | Consolidated Balance Sheets | 1 |
| | Consolidated Statements of Operations | 2 |
| | Consolidated Statements of Cash Flows | 4 |
| | Notes to Consolidated Financial Statements | 5 |
| **Item 2.** | Management' s Discussion and Analysis of Financial Condition and Results of Operations | 10 |
| **Item 3.** | Quantitative and Qualitative Disclosures About Market Risk | 18 |
| **Item 4.** | Controls and Procedures | 18 |
| **PART II: OTHER INFORMATION** | | |
| **Item 1.** | Legal Proceedings | 19 |
| **Item 1A.** | Risk Factors | 20 |
| **Item 4.** | Submission of Matters to a Vote of Security Holders | 34 |

**Item 6.**

Exhibits 34

Signatures 35

Table of Contents

CAUTIONARY STATEMENT
CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. This Quarterly Report on Form 10-Q also contains information relating to us that is based on the beliefs of our management, as well as assumptions made by, and the information currently available to, our management. Among other things, these statements include, but are not limited to, the statements in this Quarterly Report on Form 10-Q regarding:

the outcomes of our ongoing and future research and development activities, and those of our licensees, related to our polymer organic light emitting diode, or P-OLED, technology referred to below;

the potential commercial applications of our P-OLED technology, and of OLED products in general;

our ability to form and continue joint ventures and other strategic relationships with manufacturers of P-OLED materials and displays;

successful commercialization of products including our P-OLED technology by our licensees;

the willingness of these manufacturers and licensees to continue to develop, manufacture and sell commercial products integrating our technology;

future demand for products using our P-OLED technology;

the comparative advantages and disadvantages of our technology versus competing technologies currently on the market;

the nature and potential advantages of any competing technologies that may be developed in the future;

our ability to compete against third parties with resources greater than ours;

our ability to maintain and improve our competitive position following the expiration of our fundamental patents;

the adequacy of protection afforded to us by the patents that we own or license and the cost to us of enforcing that protection;

our ability to obtain, expand and maintain patent protection in the future and to protect our unpatentable intellectual property;

developments in and expenses associated with resolving matters currently in litigation;

the payments that we expect to receive in the future under our existing contracts and the terms that we are able to enter into with new licensees of our technology;

exposure of our international operations and those of our licensees to significant risks;

our future capital requirements and our ability to obtain additional financing when needed;

our future P-OLED technology licensing and other revenues and results of operations; and

the completion of the proposed merger with Sumitomo.

In addition, when used in this Quarterly Report on Form 10-Q the words "estimate", "project", "believe", "expect", "intend", “anticipate”, “seek”, “will”, “may” and "plan" and similar expressions involving potential future developments are intended to identify forward-looking statements. All of these forward-looking statements reflect our current views with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by the statements, including those risks discussed in this Quarterly Report on Form 10-Q.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update beyond that required by law any forward-looking statements whether as a result of new information, future events or otherwise.

In this Quarterly Report on Form 10-Q, the terms "the Company", "our company", "CDT", "we", "us" and "our" refer to Cambridge Display Technology, Inc. and its subsidiaries, unless the context otherwise requires.

This Quarterly Report on Form 10-Q contains references to a number of trademarks that are registered trademarks of ours or our affiliates or trademarks for which we or our affiliates have pending applications or common law rights. These include P-OLED, CDT, Cambridge Display Technology and Sumation.

Table of Contents

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

**CAMBRIDGE DISPLAY TECHNOLOGY, INC.**
**Consolidated Balance Sheets**
(in thousands, except share information)

| | June 30, 2007 (unaudited) | December 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $21,294 | $12,015 |
| Marketable securities | – | 7,252 |
| Inventory | – | 30 |
| Accounts receivable, net | 61 | 187 |
| Taxes receivable | 1,885 | 1,861 |
| Prepaid expenses and other current assets | 2,093 | 1,680 |
| Total current assets | 25,333 | 23,025 |
| Property, equipment and leasehold improvements, net | 7,872 | 9,579 |
| Investments in affiliates | 4,459 | 3,951 |
| Marketable securities | 486 | 298 |
| Goodwill | 65,612 | 65,612 |

| | | |
|---|---|---|
| Other intangible assets, net | 1,194 | 1,484 |
| Other non-current assets | 4 | 20 |
| Total assets. | $104,960 | $103,969 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $7,061 | $6,597 |
| Deferred revenue | 15,204 | 5,143 |
| Due to affiliate | – | 95 |
| Other current liabilities | 2,309 | 2,109 |
| Total current liabilities | 24,574 | 13,944 |
| Deferred revenue, non-current | 2,392 | 193 |
| Other liabilities | 543 | 596 |
| Commitments and contingencies (Note 8) | – | – |
| Common shareholders' equity: | | |
| Preferred stock, voting $0.01 par value, 46,667 authorized, None issued or outstanding | – | – |
| Common stock, $0.01 par value, 100,000,000 shares authorized, 21,903,549 issued and 21,630,703 outstanding | 216 | 216 |

| | | |
|---|---|---|
| Additional paid-in capital | 287,912 | 284,531 |
| Deferred compensation | – | – |
| Accumulated other comprehensive loss | (283 ) | (271 ) |
| Accumulated deficit | (210,394) | (195,240 ) |
| Total common shareholders' equity | 77,451 | 89,236 |
| Total liabilities and shareholders' equity | $104,960 | $103,969 |

See accompanying notes.

Table of Contents

**CAMBRIDGE DISPLAY TECHNOLOGY, INC.**
**Consolidated Statements of Operations**
(in thousands, except per share amounts)
(unaudited)

| | Three months ended June 30, | |
|---|---|---|
| | **2007** | **2006** |
| Operating revenues: | | |
| License fees and royalties | $ 1,791 | $ 2,002 |
| Technology services and development | 741 | 683 |
| Equipment and supplies | 143 | 12 |
| Total operating revenues | 2,675 | 2,697 |
| Cost of sales: | | |
| License fees and royalties | 16 | 11 |
| Technology services and development | 636 | 270 |
| Equipment and supplies | 89 | 11 |
| Total cost of sales | 741 | 292 |
| Gross profit | 1,934 | 2,405 |
| Operating expenses: | | |
| Research and development expenses | 3,550 | 3,210 |
| Selling, general and administrative expenses | 4,568 | 3,605 |

| | | |
|---|---|---|
| Amortization of intangibles acquired | 145 | 395 |
| Total operating expenses | 8,263 | 7,210 |
| Loss from operations | (6,329) | (4,805) |
| Other (expense) / income: | | |
| Equity in loss of affiliates | (1,667) | (1,599) |
| Foreign currency transaction gain | 66 | 489 |
| Other (expense) / income | (3) | 357 |
| Interest income | 169 | 304 |
| Total other expense | (1,435) | (449) |
| Loss before benefit for income taxes | (7,764) | (5,254) |
| Benefit for income taxes | (321) | (282) |
| Net loss | $ (7,443) | $ (4,972) |
| Net loss per common share attributable to common shareholders, basic and diluted | $ (0.34) | $ (0.23) |
| Weighted average number of common shares outstanding, basic and diluted | 21,630 | 21,483 |

See accompanying notes.

Table of Contents

**CAMBRIDGE DISPLAY TECHNOLOGY, INC.**
**Consolidated Statements of Operations**
(in thousands, except per share amounts)
(unaudited)

| | Six months ended June 30, | |
|---|---|---|
| | **2007** | **2006** |
| Operating revenues: | | |
| License fees and royalties | $2,894 | $2,081 |
| Technology services and development | 1,711 | 1,381 |
| Equipment and supplies | 1,070 | 270 |
| Total operating revenues | 5,675 | 3,732 |
| Cost of sales: | | |
| License fees and royalties | 27 | 12 |
| Technology services and development | 1,309 | 486 |
| Equipment and supplies | 720 | 169 |
| Total cost of sales | 2,056 | 667 |
| Gross profit | 3,619 | 3,065 |
| Operating expenses: | | |
| Research and development expenses | 7,285 | 6,305 |
| Selling, general and administrative expenses | 8,924 | 7,574 |

| | | |
|---|---|---|
| Amortization of intangibles acquired | 290 | 790 |
| Total operating expenses | 16,499 | 14,669 |
| Loss from operations | (12,880) | (11,604) |
| Other (expense)/income: | | |
| Equity in loss of affiliates | (2,983) | (3,014) |
| Foreign currency transaction gain | 59 | 276 |
| Other (expense)/income | (2) | 610 |
| Interest income | 336 | 561 |
| Total other expense | (2,590) | (1,567) |
| Loss before benefit for income taxes | (15,470) | (13,171) |
| Benefit for income taxes | (316) | (566) |
| Net loss | $(15,154) | $(12,605) |
| Net loss per common share attributable to common shareholders, basic and diluted | $(0.70) | $(0.59) |
| Weighted average number of common shares outstanding, basic and diluted | 21,630 | 21,483 |

See accompanying notes.

Table of Contents

**CAMBRIDGE DISPLAY TECHNOLOGY, INC.**
**Consolidated Statements of Cash Flows**
(in thousands)
(unaudited)

| | Six months ended June 30, | |
|---|---|---|
| | **2007** | **2006** |
| **Operating activities** | | |
| Net loss | $(15,154) | $(12,605) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization of property, equipment and leasehold improvements | 2,058 | 2,689 |
| Loss on sale of property, equipment and leasehold improvements | (1) | (2) |
| Effect of exchange rate changes on cash and cash equivalents | (171) | (428) |
| Amortization of other intangible assets | 290 | 790 |
| Stock compensation expense | 3,343 | 1,658 |
| Equity in loss of affiliates | 2,983 | 3,014 |
| Changes in operating assets and liabilities: | | |
| Accounts and tax receivable | 102 | 1,332 |
| Inventories and demo machines | 30 | (92) |
| Prepaid expenses and other assets | (397) | 249 |
| Accounts and tax payable and accrued expenses | 464 | (1,767) |

| | | |
|---|---|---|
| Due to affiliates | (95) | 18 |
| Deferred revenue | 12,260 | (246) |
| Other current and non-current liabilities | 147 | 2,122 |
| Net cash generated by / (used in) operating activities | 5,859 | (3,268) |
| **Investing activities** | | |
| Acquisition of property, equipment and leasehold improvements | (312) | (557) |
| Investment in affiliates | (3,691) | (4,886) |
| (Investment in) / sale of marketable securities | 7,252 | (1,874) |
| Net cash generating by / (used in) investing activities | 3,249 | (7,317) |
| **Financing activities** | | |
| Net cash generated by / (used in) financing activities | – | – |
| Effect of exchange rate changes on cash and cash equivalents | 171 | 428 |
| Net increase / (decrease) in cash | 9,279 | (10,157) |
| Cash and cash equivalents−beginning of period | 12,015 | 31,263 |
| Cash and cash equivalents−end of period | 21,294 | $21,106 |

See accompanying notes.

**Cambridge Display Technology, Inc.**

**Notes to Consolidated Financial Statements**

## 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006, or our 2006 Form 10-K.

The Company's consolidated financial statements have been presented on the basis that it is a going concern. The Company has incurred significant operating losses and negative cash flows from operations since inception, its revenues have declined in recent periods and it has commitments to fund the activities of Sumation, its joint venture with Sumitomo Chemical.

Based on the Company' s current existing cash balances, and because of the potential of a future merger with Sumitomo Chemical (see note 7), management believes it will be able to address its business plan into 2009 and beyond.

## 2. Other Comprehensive Loss

| | Six months ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| | (in thousands) | |
| Net Loss | $(15,154) | $(12,605) |
| Other comprehensive loss: | | |
| Unrealized gains/(losses) on marketable securities | 178 | (325) |
| Foreign currency translation adjustments | (190) | 100 |
| Other comprehensive loss: | (12) | (225) |
| Comprehensive loss | $(15,166) | $(12,830) |

## 3. Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes–an Interpretation of FASB Statement No. 109*" ("FIN 48"). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. The Company adopted FIN 48 effective January 1, 2007 and the impact and method of adoption is described in Note 4 below.

Table of Contents

**4. Income Taxes**

Income taxes are a benefit for the six months ended June 30, 2007 and 2006 reflecting tax credits to be received for research and development costs from the United Kingdom government.

The "Taxes receivable" balance of $1.9 million at June 30, 2007 includes $1.2 million of income tax refunds due for the year ended December 31, 2006 and $0.6 million for the six months ended June 30, 2007. The balance represents anticipated United Kingdom value added tax recoveries.

As a result of the implementation of FIN 48, no liability for unrecognized tax benefits was recognized. Although no interest and penalties have been recognized, the Company, upon adoption of FIN 48, has elected a policy to classify any future interest and penalties as a component of tax expense.

The Company does not anticipate that the total amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company' s UK subsidiary tax returns for the year ended December 31, 2005, based upon which the Company received tax refunds of $2.1 million, are still subject to examination by the UK tax authorities. Periods prior to this are closed, unless the authorities become aware of fraud or negligence. The tax returns for the year ended December 31, 2006, based upon which the Company expects to receive tax refunds of $1.2 million, are still to be submitted to the UK tax authorities.

The statute of limitations for the Company' s US tax returns for the years ended December 31, 2003, 2004 and 2005 are still open. The tax return for the year ended December 31, 2006 has not yet been submitted to the US tax authorities.

**5. Stock-Based Compensation**

A summary of stock-based compensation costs for the six months ended June 30, 2007 and 2006 is included below:−

| | Compensation Expense for six months ended June 30, 2007 | Compensation Expense for six months ended June 30, 2006 |
|---|---|---|
| | *(in thousands)* | |
| **Stock Options** | | |
| CDT Acquisition Corp. Stock Incentive Plan | $ 9 | $ 25 |
| 2004 Stock Incentive Plan | 272 | 132 |
| **Total Compensation Expense for Stock Options** | **$ 281** | **$ 157** |
| **Restricted Stock Units** | | |
| Special Bonus Plan | 1,526 | 1,501 |

| | | |
|---|---|---|
| 2004 Stock Incentive Plan | 1,001 | – |
| **Total Compensation Expense for Restricted Stock Units** | **$ 2,527** | **$ 1,501** |
| **Total Stock-Based Compensation Expense** | **$ 2,808** | **$ 1,658** |

*Employee Stock Options*

The Company granted 5,000 options in the three months ended June 30, 2007, and the fair value of these options was $3.63 each.

The Company recognized $0.3 million of compensation expense in relation to stock options in the six months ended June 30, 2007. The Company will recognize $0.3 million of compensation expense in the remaining six months of 2007, $0.4 million in 2008 and $0.2 million in 2009 with respect to stock options which were granted prior to June 30, 2007 but were not fully vested on that date, assuming that all such options do vest. Lower expense will be recorded to the extent that such options are cancelled prior to becoming fully vested and higher expenses will be recorded to the extent that the Company issues further stock options.

*Restricted Stock Units*

In the three months ended June 30, 2007, the Company issued 18,000 restricted stock units awards under its 2004 Stock Incentive Plan to officers and employees. These awards represent a right to receive, in the aggregate, 18,000 shares of the Company' s common stock. These awards will vest entirely on December 31, 2008. However, if the proposed Merger with Sumitomo Chemical goes ahead, the awards will be cancelled in exchange for cash (see note 7).

**6. Commitments and Contingencies**

*Commitments*

In December 2006, the Company entered into an Asset Purchase Agreement with Next Sierra, Inc. and certain of its shareholders named therein, pursuant to which the Company agreed to purchase, in January 2007, substantially all of the assets of Next Sierra, a Mountain View, California-based hardware developer that specializes in designing light-emitting diode display driver chips. The primary rationale for the transaction was to acquire a team of chip developers. All the members of this team are now employees of the Company. The Company accepted assignments of a building lease and certain software license contracts in conjunction with this transaction but did not assume responsibility for any other significant liabilities of Next Sierra. The aggregate consideration payable by the Company is 285,510 shares of the Company' s common stock, payable in three installments. The first installment of 28,551 shares was issued on January 3, 2007 and the Company is required to deliver the second (30% of the aggregate consideration) and third (60% of the aggregate consideration) installments upon the completion of certain technical milestones as provided in the Asset Purchase Agreement.

The first installment of stock was valued at the average daily closing price of the Company' s common stock for the five trading days period ended on the second business day prior to January 3, 2007, the day on which this transaction closed. $0.04 million was allocated to fixed assets based on the fair value on the closing date of the transaction, the remainder ($0.1 million) was charged as research and development expense. The Company will charge the value of the second and third installments, valued at the quarter end closing price of the Company' s common stock, to research and development expense over the period during which the corresponding technical milestones are expected to be achieved. The amount charged to research and development expense in respect of the second installment in the second quarter of 2007 was $0.2 million and in the six months ended June 30, 2007 was $0.4 million.

In May 2007, the Company entered into an agreement with Cowen and Company LLC to act as exclusive financial advisor in connection with the proposed Merger with Sumitomo Chemical Co. Ltd (see note 7). In consideration of services performed, a total fee of approximately $3.8 million was agreed. This comprised a transaction fee of $3.4 million, a fairness opinion fee of $0.3 million and expenses up to $0.1 million. As at June 30, 2007 less than $0.1 million of these costs had been charged to the income statement.

*Contingencies*

In January 2005, Sunnyside Development Company LLC ("Sunnyside") served a complaint against Opsys Limited, one of the subsidiaries of Cambridge Display Technology, Inc. ("CDT Inc."), and a company named by Sunnyside as CDT Limited, in the Superior Court for the County of Alameda, State of California, alleging claims for breach of contract and fraud arising out of an alleged property lease agreement between Opsys Limited and Sunnyside. In February 2005, the case was removed to the United States District Court for the Northern District of California, as *Sunnyside Development Company LLC v. Opsys Limited*, a United Kingdom Company. All claims against Cambridge Display Technology Limited and the claim for fraud against Opsys Limited have been dismissed.

CDT Inc. was never a party to the lease. In October 2002, Opsys Limited and Sunnyside executed an Assignment of Lease and Consent of Lessor (the "Assignment"), which included a release of Opsys Limited from its obligations under the lease

by Sunnyside. Sunnyside contends that the Assignment and release never became effective or were voided. Opsys Limited believed that the Assignment effectively released it from liability under the lease, and therefore believed that the claim had no merit. In March 2007 a jury verdict was delivered in favor of Sunnyside with damages of $4.9 million. In May 2007, judgment was entered against Opsys Limited on the jury verdict, which has been appealed. Additionally, reimbursement of legal costs of approximately $1.0 million has been claimed. Sunnyside has applied to the court to have CDT Inc. held liable for any judgment against Opsys Limited in relation to this matter under a successor liability theory. The Company believes that Sunnyside' s successor liability claim against CDT Inc. will not succeed.

On the basis of facts presently known, the Company is not involved in any other legal proceedings which could have a material adverse effect on the Company' s financial condition, liquidity or results of operations.

**7. Subsequent Events**

Merger Agreement

On July 31, 2007, the "Company", entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sumitomo Chemical Co., Ltd. ("Sumitomo") and Rosy Future, Inc., a wholly owned subsidiary of Sumitomo ("Merger Sub").

The Merger Agreement provides that, on the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Sumitomo (the "Proposed Merger"). At the effective time and as a result of the consummation of the proposed Merger, the Company' s stockholders will receive $12.00 in cash (without interest) for each share of the Company' s issued and outstanding common stock. All of the options to purchase the Company' s common stock with an exercise price of less than $12.00 per share (whether or not vested) outstanding as of the effective time of the proposed Merger will be cancelled in exchange for a cash payment equal to the product of (1) the excess of $12.00 over the applicable option exercise price by (2) the number of shares subject to such option. All restricted stock units (whether or not vested) outstanding as of the effective time of the proposed Merger will be cancelled in exchange for a cash payment equal to the product of (1) $12.00 by (2) the number of shares subject to such restricted stock units. Any remaining options with exercise prices at or above $12.00 will be cancelled. For certain options and restricted stock units issued to United Kingdom employees of the Company, award holder consent will be required to cancel the options or restricted stock units.

The Company has made representations, warranties and covenants in the Merger Agreement, including, among others, covenants (i) to carry on its business in the ordinary course and in substantially the same manner as previously conducted during the interim period between the execution of the Merger Agreement and consummation of the proposed Merger, (ii) not to engage in certain types of transactions during such period absent Sumitomo' s prior written consent (not to be unreasonably withheld), (iii) to cause a special meeting of Company common stockholders to be held to consider approval of the proposed Merger and the other transactions contemplated by the Merger Agreement, (iv) subject to certain exceptions, for its board of directors to recommend adoption and approval by Company common stockholders of the Merger Agreement and the transactions contemplated thereby, (v) not to solicit proposals relating to alternative business combination transactions, and (vi) subject to certain exceptions, involving unsolicited superior acquisition proposals, not to enter into discussions concerning, or provide confidential information in connection with, alternative business combination transactions.

Consummation of the proposed Merger is subject to customary closing conditions, including (i) approval of the Merger Agreement and the proposed Merger by holders of a majority of the Company' s common stock, (ii) the absence of any material adverse effect on the Company and (iii) the election of statutory appraisal rights by holders of no more than 10% of the Company' s common stock. Consummation of the proposed Merger is not conditioned on the receipt of financing by Sumitomo.

The Merger Agreement contains certain termination rights for both Sumitomo and the Company and further provides that, upon termination in specified circumstances, the Company may be required to pay to Sumitomo certain fees, as follows. If (i) the Company terminates the Merger Agreement in order to enter into a definitive, binding agreement with a third party for a superior offer or (ii) Sumitomo terminates the Merger Agreement (A) because the Company' s board of directors changes, withdraws or otherwise modifies in a manner adverse to Sumitomo its recommendation in favour of the proposed Merger, or approves or recommends a competing acquisition proposal, or fails to reaffirm its recommendation in favour of the proposed Merger upon Sumitomo' s request, or (B) due to breach by the Company of its representations, warranties, covenants or agreements in the Merger Agreement, such that the closing conditions would not be satisfied, and such breach is incurable, or if curable is not cured within 30 days of written notice being given, and within one year of termination the Company enters into (or consummates) a change of control transaction, or (C) because the Company or its directors, officers, employees, representatives or agents breach the Company' s non-solicitation obligations and within one year of termination the Company enters into (or consummates) a change of control transaction, the Company is required to pay Sumitomo a termination fee of $11.3 million.

In addition, the Company has agreed to reimburse Sumitomo for $5 million of its out-of-pocket expenses (of which $1 million would be payable on termination and $4 million plus 5% interest would be payable no later than 15 months after termination) if the Merger Agreement is terminated by Sumitomo because (i) the Company breaches any of its representations, warranties, covenants or agreements, such that the closing conditions would not be satisfied, and such breach is incurable or, if curable, it is not cured within thirty days of written notice; or (ii) the Company' s non-solicitation obligations are breached by the Company or any of the Company' s officers, directors, employees, representatives or agents.

Finally, the Company has agreed to reimburse Sumitomo for specified expenses actually incurred (not to exceed $8 million) if (i) the Merger Agreement is terminated by the mutual agreement of Sumitomo and the Company and within one year of the termination the Company enters into (or consummates) a change of control transaction; (ii) the Merger Agreement is terminated by either Sumitomo or the Company because the proposed Merger fails to close by March 31, 2008 and within one year of the termination the Company enters into (or consummates) a change of control transaction; or (iii) the Merger Agreement is terminated by either Sumitomo or the Company because the Company' s stockholders vote against the transaction and within one year of the termination the Company enters into (or consummates) a change of control transaction.

The description of the Merger Agreement above does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which is filed hereto as Exhibit 2.1 and incorporated herein by reference.

The representations and warranties of each party set forth in the Merger Agreement have been made solely for the benefit of the other party to the Merger Agreement, and such representations and warranties should not be relied upon by any other person. In addition, the Company' s representations and warranties are qualified by materiality standards that may differ from what may be viewed as material by investors and information in disclosures made by the Company to Sumitomo in connection with signing the Merger Agreement.

Support Agreements

Concurrently with entering into the Merger Agreement, certain of the Company' s stockholders, including Kelso & Company, its principal stockholder, and several management stockholders, entered into Support Agreements with Sumitomo and the Company, pursuant to which each of those stockholders severally agreed to vote all shares of the Company' s common stock beneficially owned in favour of the proposed Merger and against competing transactions. In the aggregate, these stockholders beneficially own approximately 43% of the Company' s outstanding common stock. Each of the Support Agreements terminates upon the earlier of (i) the effective date of the proposed Merger or (ii) termination of the Merger Agreement pursuant to its terms (including if the Company terminates the Merger Agreement to accept a superior acquisition proposal). The description of the Support Agreements does not purport to be complete and is qualified in its entirety by the form of Support Agreement, which is filed as an exhibit to the Company' s Current Report on Form 8-K filed with the SEC on July 30, 2007.

[Table of Contents](#)

**Item 2. Management' s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion of our financial condition and results of operations should be read together with the consolidated financial statements and related notes that are included elsewhere in this Quarterly Report on Form 10-Q. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those expected in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" in Item 1A of Part II below or elsewhere in this Quarterly Report on Form 10-Q.*

**Overview**

We are a pioneer in the development of P-OLEDs and their use in next-generation flat panel displays and other applications. The fundamental discoveries relating to our P-OLED materials were made by a team of researchers at the Cavendish laboratories at the University of Cambridge in 1989 that included Dr. Jeremy Burroughes, our Chief Technical Officer. Since our inception in 1992, we have focused on continuing research and development related to the production, manufacturing and commercialization of P-OLED technology in the flat panel display and other industries. Our revenues are primarily generated from the licensing of rights to use our IP portfolio, from ongoing product royalties, from fees generated from transfer of technology and joint technology development agreements and from the sale of ink jet printing equipment, display test equipment and polymer inks.

We sold our first P-OLED license in 1996 to Royal Philips Electronics and currently have ten device licensees, three materials licensees and two component licensees and are working with a number of additional display manufacturers through joint technology development programs and informal relationships. We recognized our first royalty revenues in 2002 when commercial consumer electronics products began incorporating our P-OLED technology. Currently, our P-OLED technology is being used in mobile phones, MP3 players, medical equipment and other applications.

While we have made significant progress over the past few years in advancing our P-OLED technology into a number of display licenses, we have incurred significant losses and will continue to do so unless our P-OLED technology becomes more widely adopted and commercialized by flat panel display manufacturers. As of June 30, 2007, we had an accumulated deficit of $210 million in large part due to the research and development expenditures we have incurred. Our total research and development expenditures since 1999 exceed $108 million.

Our business objective is to license our technology to leading display manufacturers and to generate royalties based on the sales of their products. As a pre-cursor to our licensing and royalty business we sell technology services, development services and ink jet printing equipment and polymer inks to companies working on P-OLED technology. We market our P-OLED IP and technology by building relationships with established and new entrant flat panel display manufacturers. This may involve developing relationships at a senior level over a period of years. Some manufacturers purchase a license from us at an early stage in their P-OLED development program. Other manufacturers begin their efforts to develop products using our P-OLED technology by working with us through a series of informal meetings, then by entering, either publicly or confidentially, into a formal technology development or technology transfer program which may culminate in the purchase of a license from us.

In order to accommodate our many current and potential Asian licensees and partners, we maintain a representative office in Taiwan. One of our senior executives is based in Taiwan. Other senior executives, including our Chief Executive Officer, travel frequently from our corporate offices to Asia and other destinations in order to develop our relationships with both existing and potential new licensees.

We believe that the key factors that will contribute to the successful execution of our strategy are:

- the further development of P-OLED materials and device structures in order to increase the commercial lifetimes of P-OLED products;

the further development of ink jet printing equipment and process, and other deposition processes, so that mass production of full color P-OLED displays can be demonstrated;

the further development of other technologies required for P-OLED displays, in particular active matrix thin-film transistor (TFT) display drivers and passive matrix display drivers based on our TMA technology; and

the adoption of P-OLED technology by increasing numbers of existing and potential future display manufacturers.

Management monitors performance in achieving these goals by reference to internal and external technology developments. Progress in the other areas is demonstrated by the increasing service lifetimes of our P-OLED materials, the size of demonstration displays being exhibited by ourselves and display manufacturers, the increasing number of companies which are working with us on technology services and development projects and increasing revenues from these projects.

Table of Contents

Although we believe that P-OLED display technology has the potential to enable displays to be manufactured at lower cost than competing LCD technology, this cost advantage will not be realized until P-OLED technology is proved in volume manufacturing. LCD manufacturing companies continue to strive to reduce unit manufacturing costs and such cost reductions will make it more difficult for P-OLED technology to penetrate the market, although we believe that the simpler structure of P-OLED display devices compared to LCD will mean that, ultimately, P-OLED displays will be cheaper to produce.

We believe that the flat panel display, or FPD, market will remain price sensitive. Limited penetration of P-OLED displays will be possible if there is a price premium, but we believe that any such premium will have to erode and that production costs at volume will have to be lower for P-OLED than for competing technologies in order that P-OLED products can take significant market share.

In November 2006, we announced the development of a new passive matrix driver, Total Matrix Addressing ™, or TMA™. Prior to TMA, large OLED displays have only been feasible by using active matrix (AM) technology incorporating an expensive thin-film transistor (TFT) layer. Passive matrix (PM) displays, which are driven by cheaper external chips, have been restricted to smaller screen sizes. TMA is a technology which potentially can be incorporated into driver chips to bring active matrix capabilities to passive matrix displays. TMA reduces power consumption and enhances panel lifetime for a given pixel count in passive matrix displays. Measurements on small passive matrix displays that incorporated the TMA solution demonstrated at least a 50% reduction in power consumption or exhibited double the display luminescence at the same power consumption. The TMA driving system can be applied to both P-OLED and small molecule OLED, or SMOLED, technology passive matrix displays. Industry response has been very positive to this new technology and in January 2007, we acquired the assets of Next Sierra, an OLED display design chip house to help accelerate our development of this technology, which we believe has strong commercial potential.

In reading our financial statements, you should be aware of the following factors and trends that our management believes are important in understanding our financial performance:

- because our license fees often consist of large one-time payments and our royalties for the foreseeable future are expected to be smaller, recurring payments, we expect fluctuations in these revenues depending on the periods in which we enter into new licenses;

- we have and will continue to invest significant resources in research and development in order to develop and effectively demonstrate our technology so that it can be commercialized in a growing number of applications, which is indicated by our total research and development expenditures in the first six months of 2007 of $ 7.3 million;

- we expect that our future royalties will be impacted by the extent to which we continue to enter into new technology development agreements and existing technology development partners enter into commercial licenses for use of our P-OLED technology; and

- we expect that our future royalties will be impacted by the extent to which our existing licensees expand the use of our P-OLED technology in commercial applications in their consumer electronic products.

Table of Contents

**Results of Operations**

***Comparison of Three and Six Months Ended June 30, 2007 and June 30, 2006***

| **Operating Revenues** *(in thousands, except percentages)* | **Three months ended June 30, 2007** | **Three months ended June 30, 2006** | **% Increase / (Decrease)** | **Six months ended June 30, 2007** | **Six months ended June 30, 2006** | **% Increase / (Decrease)** |
|---|---|---|---|---|---|---|
| License fees and royalties | $1,791 | $2,002 | (11 %) | $ 2,894 | $ 2,081 | 39 % |
| Technology services and development | 741 | 683 | 8 % | 1,711 | 1,381 | 24 % |
| Equipment and supplies | 143 | 12 | 1,092 % | 1,070 | 270 | 296 % |
| **Total operating revenues** | **$2,675** | **$2,697** | **(1 %)** | **$ 5,675** | **$ 3,732** | 52 % |

License fees and royalties revenues decreased by $0.2 million, or 11%, from $2.0 million in the second quarter of 2006 to $1.8 million in the second quarter of 2007. This decrease was due to the fact that a license fee of $1.0 million was recognized in the second quarter of 2006 in relation to the licensing of intellectual property rights, and in the second quarter of 2007 recognition of revenue of $0.8 million came from one license agreement which was signed in September 2006. In this latter case, license revenue is being recognized ratably over the period in which we have obligations to the licensee, which will be approximately three years. The balance of License fees and royalties revenues in each quarter comprised royalties received from four licensees in the second quarter of 2007 and five licensees in the second quarter of 2006.

License fees and royalty revenues increased by $0.8 million, or 39%, from $2.1 million in the first six months of 2006 to $2.9 million in the first six months of 2007 . This is because in 2007, recognition of revenue of $1.9 million came from one license agreement which was signed in September 2006, whereas in the same period in 2006, only $1.0 million of revenue was recognized in relation to the licensing of intellectual property rights. Royalty revenues were received from four licensees in 2007 and six licensees in 2006.

Technology services and development revenues stayed constant at $0.7 million in the second quarter of 2007 and 2006. This is due to the recognition of $0.7 million of revenue in the second quarter of 2007 from a development contract which was signed in September 2006. In the second quarter of 2006, the same amount of revenue was generated from seven smaller contracts. Technology services and development revenues were received from two customers during the second quarter of 2007 and seven customers during the second quarters of 2006.

Technology services and development revenues increased by $0.3 million, or 24%, from $1.4 million in the first six months of 2006 to $1.7 million in the first six months of 2007. This is due to the recognition of $1.6 million of revenue in the first six months of 2007 from a development contract which was signed in September 2006. In the second quarter of 2006, a smaller amount of revenue was generated from eight smaller contracts. Technology services and development revenues were received from two customers during the first six months of 2007 and eight customers during the first six months of 2006.

Equipment and supplies revenue was $0.1 million in the second quarter of 2007 compared with less than $0.1 million in the second quarter of 2006. In both quarters, these revenues came from sales of polymer ink.

Equipment and supplies revenue was $1.1 million in the first six months of 2007 compared with $0.3 million in the first six months of 2006. The increase was due to revenue generated from the sale of an ink jet printer for $0.8 million in the first quarter of 2007. No such high value printer sales were made in 2006, where the revenue received was from sales of polymer inks.

Matsushita Electric Industrial Co., Ltd and Osram Opto each accounted for in excess of 10% of our revenues in the second quarter of 2007. Samsung Electronics and Osram Opto each accounted for in excess of 10% of our revenues in the second quarter of 2006.

Matsushita Electric Industrial Co., Ltd and Osram Opto each accounted for in excess of 10% of our revenues in the first six months of 2007. Samsung Electronics, Toppan Printing and Osram Opto each accounted for in excess of 10% of our revenues in the first six months of 2006.

Table of Contents

| Cost of Sales *(in thousands, except percentages)* | Three months ended June 30, 2007 | % of Revenues * | | Three months ended June 30, 2006 | % of Revenues * | | Six months ended June 30, 2007 | % of Revenues * | | Six months ended June 30, 2006 | % of Revenues * | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| License fees and royalties | $16 | 1 | % | $11 | 1 | % | $27 | 1 | % | $12 | 1 | % |
| Technology services and development | 636 | 86 | % | 270 | 40 | % | 1,309 | 77 | % | 486 | 35 | % |
| Equipment and supplies | 89 | 62 | % | 11 | 92 | % | 720 | 67 | % | 169 | 63 | % |
| **Total cost of sales** | **$741** | **28** | **%** | **$292** | **11** | **%** | **$2,056** | **36** | **%** | **$667** | **18** | **%** |
| **Gross profit** | **$1,934** | **72** | **%** | **$2,405** | **89** | **%** | **$3,619** | **64** | **%** | **$3,065** | **82** | **%** |

* the percentages shown in these columns represent each Cost of sales figure divided by the corresponding Revenue figure from the Operating `Revenues table above

Cost of sales related to License fees and royalties was 1% of related sales in both the second quarters and the first six months of 2007 and 2006. This comprises payments made to third parties from whom we have acquired intellectual property. We expect that cost of sales for License fees and royalties will average between 1% and 2% of related sales in the future.

Cost of sales related to Technology services and development increased from 40% in the second quarter of 2006 to 86% in the second quarter of 2007 and increased from 35% in the first six months of 2006 to 77% in the first six months of 2007. We believe that the increased complexity of Technology services and development contracts and market pressure on pricing will result in this higher cost of sales percentage continuing in future periods. A portion of this higher cost of sales cost is due to our existing research and development team devoting a higher proportion of their effort in supporting revenue-generating projects than had been the case in prior periods. We seek to ensure that the nature of these projects is such that the objectives of these commercial projects are aligned with and complementary to our internal research and development priorities.

Cost of sales related to Equipment and supplies revenues decreased from 92% of related sales for the second quarter of 2006 to 62% of related sales for the second quarter of 2007 and increased from 63% of related sales for the first six months of 2006 to 67% for the first six months of 2007. We believe that cost of sales as a percentage of revenue for Equipment and supplies reported in the first six months of 2007 will be representative of future quarters.

Gross profit decreased by $0.5 million, from $2.4 million in the second quarter of 2006 to $1.9 million in the second quarter of 2007 but increased by $0.5 million from $3.1 million in the first six months of 2006 to $3.6 million in the first six months of 2007. The aggregate margin percentage was higher in each of the second quarter and the first six months of 2006 compared to 2007 because of the revenue mix: a higher proportion of our revenues in each of the second quarter and the first six months of 2006 came from higher-margin revenue categories, namely License fees and royalties, compared with the second quarter and the first six months of 2007.

We only charge direct labor cost and variable cost of materials associated with each revenue-generating project to cost of sales and do not charge any allocation of fixed cost overheads. Therefore, relatively high margins are required, for both Technology services and development and Equipment and supplies, in order for the related contracts to make a contribution to our fixed costs, including our research and development costs.

| Operating Expenses (in thousands, except percentages) | Three months ended June 30, 2007 | Three months ended June 30, 2006 | % Increase/ (Decrease) | Six months ended June 30, 2007 | Six months ended June 30, 2006 | % Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| Research and development expenses | 3,550 | 3,210 | 11 % | 7,285 | 6,305 | 16 % |
| Selling, general and administrative expenses | 4,568 | 3,605 | 27 % | 8,924 | 7,574 | 18 % |
| Amortization of intangibles acquired | 145 | 395 | (63 )% | 290 | 790 | (63 )% |
| **Total Operating Expenses** | **$8,263** | **$7,210** | **15 %** | **$16,499** | **$14,669** | **12 %** |

Our research and development expenses increased by $0.4 million, or 11%, from $3.2 million in the second quarter of 2006 to $3.6 million in the second quarter of 2007 because of:

a decrease of $0.3 million due to an increase in costs being reimbursed by Sumation, our 50%-owned joint venture with Sumitomo Chemical in the first second quarter of 2007, which level of reimbursement we anticipate is likely to continue in future periods;

a decrease of $0.2 million due to increased government grant income received in the second quarter of 2007;

an increase of $0.3 million in stock compensation expense due to the issuance of stock options and restricted stock units during the first quarter of 2007 and also due to costs related to the modifications of restricted stock unit and stock option awards granted to one of our employees;

an increase of $0.8 million due to the costs incurred in the development of our TMA technology in the second quarter of 2007;

an increase of $0.2 million due to research and development costs recognized in the second quarter of 2007 in relation to stock which is to be issued in consideration for the purchase of the assets of Next Sierra;

a decrease of $0.6 million due to lower depreciation charges in the second quarter of 2007 due to a number of assets at our Technology Development Centre having become fully depreciated; and

- an increase of $0.2 million due to higher expenditure on research programs, including higher facilities costs in the second quarter of 2007.

Our research and development expenses increased by $1.0 million, or 16%, from $6.3 million in the first six months of 2006 to $7.3 million in the first six months of 2007 because of:

- a decrease of $0.5 million due to an increase in costs being reimbursed by Sumation, our 50%-owned joint venture with Sumitomo Chemical, in the first six months of 2007, which level of reimbursement we anticipate is likely to continue in future periods;

- a decrease of $0.2 million due to increased government grant income received in the first six months of 2007;

- an increase of $0.3 million in stock compensation expense due to the issuance of stock options and restricted stock units during the first quarter of 2007 and also due to costs related to the modifications of restricted stock unit and stock option awards granted to one of our employees; and

- an increase of $1.4 million due to the costs incurred in the development of our TMA technology in the first six months of 2007;

- an increase of $0.5 million due to research and development costs recognized in the first six months of 2007 in relation to stock which is to be issued in consideration for the purchase of the assets of Next Sierra;

- a decrease of $0.6 million due to reduced depreciation charges in the second quarter of 2007 due to a number of assets at our Technology Development Centre having become fully depreciated;

- an increase of $0.4 million due to higher expenditure on research programs, including higher facilities costs in the first six months of 2007; and

- a decrease of $0.3 million due to more of the cost of the research and development function being charged to revenue-generating projects in the first six months of 2007 and correspondingly less being charged to Research and development expense, which decrease was due to $1.0 million being spent in the first six months of 2007 compared with $0.7 million in the first six months of 2006 on activities which were similar in nature to research and development but which directly supported revenue-generating projects and were not therefore classified as Research and development expenses.

Research and development expenses will continue to vary from quarter to quarter due to the specific requirements of the projects being carried out in any quarter.

Table of Contents

Our selling, general and administrative expenses increased by $1.0 million, or 27%, from $3.6 million in the second quarter of 2006 to $4.6 million in the second quarter of 2007 because of:

an increase of $0.3 million in stock compensation expense due to the issuance of stock options and restricted stock units during the first quarter of 2007 and also due to costs related to the modifications of restricted stock unit awards granted to two of our executives;

an increase of $0.3 million due to accrued professional fees connected with the proposed Merger with Sumitomo in the second quarter of 2007;

an increase of $0.1 million due to Delaware Franchise tax costs being reclassified from tax to selling, general and administrative expenses in the second quarter of 2007;

an increase of $0.1 million due to increased litigation expenses in the second quarter of 2007; and

an increase of $0.2 million in relation to significant one-off service costs being incurred in the second quarter of 2007 relating to the headquarters building.

Our selling, general and administrative expenses increased by $1.3 million, or 18%, from $7.6 million in the first six months of 2006 to $8.9 million in the first six months of 2007 because of:

an increase of $0.4 million in stock compensation expense due to the issuance of stock options and restricted stock units during the first quarter of 2007 and also due to costs related to the modifications of restricted stock unit awards granted to two of our executives;

an increase of $0.3 million due to accrued professional fees connected with the proposed Merger with Sumitomo in the second quarter of 2007;

an increase of $0.1 million due to Delaware Franchise tax costs being reclassified from tax to selling, general and administrative expenses in the second quarter of 2007;

a decrease of $0.2 million due to an increase in costs being reimbursed by Sumation, our 50%-owned joint venture with Sumitomo Chemical in the first six months of 2007,

an increase of $1.0 million due to increased litigation expenses in the first six months of 2007; and a decrease of $0.3 million due to reductions in other administrative costs including staff relocation, insurance and other staff costs, offset by increased facilities costs in the second quarter of 2007.

Amortization of intangibles acquired decreased by $0.3 million from $0.4 million for the second quarter of 2006 to $0.1 million for the second quarter of 2007, and decreased by $0.5 million from $0.8 million for the first six months of 2006 to $0.3 million for the first six months of 2007. This is because certain intangible assets became fully amortized in October 2006. The quarterly amortization charge of $0.1 million for the second quarter of 2007 is expected to continue until 2009, unless we acquire further intangible assets.

| **Other Income/ (Expense)** *(in thousands, except percentages)* | **Three months ended June 30, 2007** | **Three months ended June 30, 2006** | **Six months ended June 30, 2007** | **Six months ended June 30, 2006** |
|---|---|---|---|---|
| Equity in loss of affiliates | $(1,667) | $(1,599) | $(2,983) | $(3,014) |
| Foreign currency transaction gain | 66 | 489 | 59 | 276 |
| Other income / (expense) | (3 ) | 357 | (2 ) | 610 |
| Interest income | 169 | 304 | 336 | 561 |
| **Total (Expense) / Income** | **$(1,435)** | **$(449 )** | **$(2,590)** | **$(1,567)** |

*Equity in loss of affiliates:* Equity in loss of affiliates for both the first six months of 2007 and 2006 included 50% of the losses of Sumation. We expect to continue reporting losses for Sumation in future periods.

*Foreign currency transaction gain:* We would expect a gain from revaluations of assets and liabilities denominated in currencies other than US dollars if the U.S. dollar weakens versus the British pound during the year since our British pound assets exceed our British pound liabilities. The gain reported in the first six months of 2006 was primarily due to significant gains realized on the revaluation of bank balances held in British pounds offsetting smaller losses realized on the execution of forward foreign exchange contracts in quarter one. We no longer execute forward foreign exchange contracts. In the first six months of 2007, the revaluation gain was smaller since the US dollar did not weaken as much versus the British pound.

*Other income / (expense):* The gain of $0.4 million in the second quarter of 2006 and the gain of $0.6 million in the first six months of 2006 relate to the reversal of unrealized losses on forward exchange contracts which had been reported in prior periods.

*Interest income:* Interest income decreased by $0.1 million from $0.3 million in the second quarter of 2006 to $0.2 million in the second quarter of 2007 and by $0.3 million from $0.6 million in the first six months of 2006 to $0.3 million in the first six months of 2007 due to lower average cash balances.

Our benefit for income taxes fell from $0.6 million in the first six months of 2006 to $0.3 million in the first six months of 2007. A benefit is shown because we surrender tax losses related to certain research and development expenditures to the U. K. tax authorities in return for a cash payment. The amount of benefit we can accrue is reduced to the extent that such expenses support revenue-generating contracts and this amount is lower in the first six months of 2007 because of the increased amount of research being funded by third parties and thus not qualifying for tax relief. The tax credit calculated for the first six months of 2007 was offset by Japanese withholding tax incurred on license income.

Our net loss increased by $2.4 million from $5.0 million in the second quarter of 2006 to $7.4 million in the second quarter of 2007 because of lower Gross profit, higher total operating expenses, lower Interest income and lower gains related to foreign exchange movements. Our net loss increased by $2.6 million from $12.6 million for the first six months of 2006 to $15.2 million in the first six months of 2007 for similar reasons.

**Liquidity and Capital Resources**

Net cash used in operating activities was $3.3 million in the first six months of 2006 and net cash generated by operations was $5.8 million in the first six months of 2007 due to, an increase in cash generated by operating activities of $9.1 million:

an increase of $12.4 million due to an increase in receipts from customers from $5.7 million in the first six months of 2006 to $18.1 million in the first six months of 2007. The main item making up the difference is $10 million received for a major licence agreement signed in June 2007;

a decrease of $1.0 million due to increased expenses related to commercial projects;

a decrease of $1.7 million due to increased cash operating expenses;

a decrease of $0.3 million due to a decrease in interest income;

a decrease of $1.4 million due to a lower research reimbursement being received from Sumation in six months of 2007 compared with first six months of 2006 (due to invoices being for a shorter period); and

an increase of $1.1 million due to changes in working capital.

We invested $4.9 million of capital in Sumation in April 2007, which was the same amount invested by Sumitomo Chemical, our joint venture partner. Thus, we continue to have a 50% ownership of this joint venture. We expect to provide additional funding in future periods. The amount of funding required by Sumation will be dependent on the extent to which Sumation is able to fund its activities from sales of P-

OLED materials. Sumation funds some of our research and development activities and we expect to receive more in reimbursements from Sumation than we will invest in the funding of Sumation.

In 2007, we redeemed $7.3 million in certificates of deposit and floating rate notes with maturities of more than 90 days but less than one year.

We expect, based on our internal forecast and assumptions relating to our operations (including, among others, assumptions regarding our working capital requirements, additional equity investments, the progress of our research and development efforts and revenues, including stage payments due to us pursuant to our contractual arrangements with Matsushita Electric Industrial) that we have sufficient cash to meet our obligations for at least the next 12 months.

Table of Contents

## Critical Accounting Policies

*General*

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of these statements requires us to make certain estimates and judgments that affect the statement of operations, balance sheet, cash flow or disclosures relating to contingent assets or liabilities. Our actual results might, under different assumptions and conditions, differ from our estimates. Significant estimates include the valuation of our IP, lives of our long-lived assets and estimates related to the delivery of know-how and services under technology services contracts. The following is an update of the discussion of our critical accounting policies set forth in our 2006 Form 10-K. For a complete discussion of our most critical accounting policies, as well as the estimates and judgments involved, refer to "Critical Accounting Policies and Significant Developments and Estimates" under Item 7, "Management' s Discussion and Analysis of Financial Condition and Results of Operations," of our 2006 Form 10-K.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

A majority of our revenues are denominated in U.S. dollars. These revenues include royalties based on revenues or production costs of our licensees that may be denominated in U.S. dollars or other currencies. Where such revenues or productions costs of our licensees are denominated in other currencies, they are converted to U.S. dollars for the purpose of calculating any licensing royalties due to us. Our licensing royalty revenues may decrease as a result of any appreciation of the U.S. dollar against these other currencies.

The majority of our current expenditures are incurred in British pounds in order to fund our operations in the United Kingdom. If the U. S. dollar depreciates versus the British pound, additional U.S. dollars will be required to fund our operations in the United Kingdom. For example, a change in the rate at which we exchange U.S. dollars to British pounds from 1.9 to 2.0 would, at the current rate of expenditure, cost us approximately an additional $1 million per year.

### Item 4. Controls and Procedures

(a) ***Evaluation of disclosure controls and procedures.*** The Company' s management, with the participation of the Company' s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company' s disclosure controls and procedures as of June 30, 2007. Based on that evaluation, the Company' s Chief Executive Officer and Chief Financial Officer concluded that the Company' s disclosure controls and procedures were effective as of June 30, 2007.

(b) ***Changes in internal control over financial reporting***. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation described in Item 4(a) above that occurred during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

In January 2005, Sunnyside served a complaint against one of CDT Inc.' s subsidiaries, Opsys Limited, and a company named by Sunnyside as CDT Limited, in the Superior Court for the County of Alameda, State of California, alleging claims for breach of contract and fraud arising out of an alleged property lease agreement between Opsys Limited and Sunnyside. In February 2005, the case was removed to the United States District Court for the Northern District of California, as Sunnyside Development Company LLC v. Opsys Limited, a United Kingdom Company. All claims against CDT Limited and the claim for fraud against Opsys Limited have been dismissed.

CDT Inc. was never a party to the lease. In October 2002, Opsys Limited and Sunnyside executed an Assignment of Lease and Consent of Lessor (the "Assignment"), which included a release of Opsys Limited from its obligations under the lease by Sunnyside. Sunnyside contends that the Assignment and release never became effective or were voided. Opsys Limited believed that the Assignment effectively released it from liability under the lease, and therefore believed that the claim had no merit. In March 2007 a jury verdict was delivered in favor of Sunnyside with damages of $4.9 million. In May 2007, judgment was entered against Opsys Limited on the jury verdict. Additionally, reimbursement of legal costs of approximately $1.0 million has been claimed. Sunnyside has applied to the court to have CDT Inc. held liable for any judgment against Opsys Limited in relation to this matter under a successor liability theory. We believe that Sunnyside' s successor liability claim against CDT Inc. will not succeed.

## Item 1A. Risk Factors

*An investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with all of the other information included in this Quarterly Report on Form 10-Q and our 2006 Form 10-K before making an investment decision. If any of the following risks or uncertainties actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. This Quarterly Report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those expected in those forward-looking statements as a result of certain factors, including the risks and uncertainties faced by us described below and elsewhere in this Quarterly Report on Form 10-Q and our 2006 Form 10-K.*

### Risks Relating to Our Business and Industry

***We have a history of losses, do not expect to be profitable in the foreseeable future and may never be profitable.***

Since inception, we have generated limited revenues while incurring significant losses. We expect to incur losses for the foreseeable future until such time, if ever, as we are able to achieve sufficient levels of revenue from the commercial exploitation of our P-OLED, TMA and related technologies to support our operations. You should note that:

- neither P-OLED, TMA nor related technologies may never be broadly commercially adopted;

- markets for FPD using P-OLED, TMA and related technologies may be limited; and

- we may never generate sufficient revenues from the commercial exploitation of our P-OLED, TMA and related technologies to become profitable.

We license our P-OLED and related technologies to P-OLED materials manufacturers and display manufacturers, which then incorporate our technologies into the materials and products they sell. Even if we and our display manufacturer licensees develop commercially viable applications for our technologies, we may never recover our research and development expenses. We have had significant net losses in previous periods and expect to report net losses in future periods, and as of June 30, 2007, we had an accumulated deficit of over $210 million. We cannot predict what impact continued net losses might have on our ability to finance our operations in the future or on the market value of our common stock.

***Because we are at an early stage of development and have a limited operating history, our future results are unpredictable.***

Our future success is uncertain because we have a limited operating history and face many risks and uncertainties. If we are unsuccessful in addressing these risks and uncertainties, we may be unable to generate sufficient revenue growth to support ongoing operations. We were formed in 1992 to research and develop P-OLED technology. We began licensing P-OLED technology to original equipment manufacturers, or OEMs, in 1996, and in 2002 this technology was initially commercialized. Accordingly, there is only a limited amount of past experience upon which to evaluate our business and prospects, and a potential investor should consider the challenges, expenses, delays and other difficulties involved in the development of our business, including the continued development of our P-OLED, TMA and related technologies, refinement of processes and components for commercial products using our P-OLED, TMA and related technologies, formation of additional commercial relationships and achievement of market acceptance for products using P-OLED, TMA and related technologies.

***If our P-OLED, TMA and related technologies are not feasible for broad-based product applications, we may never generate revenues sufficient to support ongoing operations.***

Before manufacturers of displays and other products which use our P-OLED, TMA and related technologies will agree to use these technologies for wide-scale commercial production, they will likely require us to demonstrate to their satisfaction that these technologies are feasible for their particular product applications. This, in turn, would require additional advances in our research and development efforts, as well as those of others, for applications in a number of areas, including:

device reliability;

the development of TMA driver chips;

the development of P-OLED materials with sufficient lifetimes, brightness and color coordinates for the applications in question; and

issues related to scalability and cost-effective fabrication technologies.

Currently, P-OLED displays are being or have been used or tested for small- to medium-sized product applications such as mobile phones, PDAs, digital cameras and camcorders (including electronic viewfinders), portable DVD players, electric shavers, MP3 players, in-car entertainment and navigation displays and other applications. P-OLED displays have not yet been commercially introduced in larger applications such as laptop computers, desktop computer monitors or televisions other than in prototypes. To date, we have not attained the service lifetimes required by the manufacturers of these more demanding larger applications. Our TMA technology is at an early stage of development and has only been demonstrated in a "proof of concept" demonstrator.

Our research and development efforts remain subject to all of the risks associated with the development of new products based on emerging and innovative technologies, including, for example, unexpected technical problems or the possible insufficiency of funds for completing development of these products. Technical problems may result in delays in the implementation of our technologies in specific applications and cause us to incur additional expenses that would increase our losses. If we cannot complete research and development of our P-OLED technology successfully, or if we experience delays in completing research and development of our P-OLED technology for use in potential commercial applications, particularly after incurring significant expenditures, our business may fail.

***Even if our P-OLED, TMA and related technologies are technically feasible, they may not be adopted by display manufacturers.***

The potential size, timing and viability of market opportunities targeted by us through our display manufacturer licensees are uncertain at this time. Market acceptance of our P-OLED, TMA and related technologies will depend, in part, upon this technology providing benefits comparable to or greater than those provided by cathode ray tube display, LCD or plasma technology (the current standard display technologies) at an advantageous cost to manufacturers, and the adoption of products incorporating this technology by consumers.

Display manufacturers make the determination during their product development programs whether to incorporate our P-OLED, TMA or related technologies or pursue other alternatives, and they may be forced to make significant investments of time and cost well before they introduce their products incorporating our technology to the consumer market and before they can be sure that they will generate any significant sales to recover their investment. Moreover, certain existing licensees and potential licensees of our P-OLED technology currently manufacture FPDs using competing technologies, and they may, therefore, be reluctant to redesign their products or manufacturing processes or invest in new or converted facilities to incorporate our P-OLED, TMA or related technologies.

During a display manufacturer licensee's entire product development process, we face the risk that our technology will fail to meet our licensee's technical, performance or cost requirements or will be replaced by a competing product or alternative technology. For example, we are aware that some of our licensees have entered into arrangements with our competitors regarding the development of competing technologies, including the potential production of OLED displays by ink jet printing using phosphorescent materials. Even if we offer technology that is satisfactory to a display manufacturer licensee, they may choose to delay or terminate their product development efforts for reasons unrelated to our technology. The occurrence of any of these events would adversely affect our royalty revenues and may make it difficult to attract additional licensees.

Our TMA technology may not be adopted by display manufacturers if chips cannot be developed at a price and with power consumption and other technical characteristics which are attractive to display manufacturers.

***There are alternatives to P-OLEDs for FPDs, which may limit our ability to commercialize our P-OLED technology.***

The FPD market is currently, and will likely continue to be for some time, dominated by displays based on LCD technology. Numerous companies have made and are continuing to make substantial investments in, and are conducting research to improve the characteristics of, LCDs. Several other FPD technologies have been, or are being, developed, including technologies for the production of field emission, inorganic electroluminescence and plasma. Advances in LCD technology or any of these other technologies may overcome their current limitations and permit them to remain or become more attractive technologies for FPDs, either of which could limit the potential market for FPDs using our P-OLED technology. This, in turn, would cause display manufacturers to avoid entering into commercial relationships with us or to renegotiate, terminate or not renew their existing relationships with us, which may cause our business strategy to fail.

***Other OLED technologies may be more successful than ours, which may limit the commercial adoption of our P-OLED technology.***

Other companies have developed OLED technologies that differ from and compete with our P-OLED technology. Certain of these competing OLED technologies entered the marketplace prior to ours and may become entrenched in the flat panel industry before our P-OLED technologies have a chance to become widely adopted. Moreover, competitors may succeed in developing new OLED technologies or new manufacturing techniques that are more cost-effective or have fewer limitations than our P-OLED technology or other existing OLED technologies. If our P-OLED technology is unable to capture a substantial portion of the OLED display market, our business strategy may fail.

We believe that a competitive advantage of our P-OLED technology is that, unlike the materials used by competing OLED technologies, our P-OLED materials can be dissolved in common organic solvents to make inks which can be patterned using high precision printing processes to make displays. Several other companies, including, we believe, DuPont Displays, Universal Display Corporation and Seiko Epson, are attempting to develop alternative OLED materials with similar properties and some have claimed progress in this work. If other companies succeed in the development of such materials and also develop associated device structures and manufacturing techniques, it may become possible to print OLED displays which are not covered by our intellectual property. If such technologies are successfully developed and commercialized and are perceived by display makers to be superior to our P-OLED technology, our business strategy may fail.

***In the short term, a major market for our TMA technology will be Kodak's SMOLED technology, which may not be successful.***

Currently, a significant market for our TMA technology is SMOLED technology. A number of plants which manufacture SMOLED displays have discontinued production during the last two years. By the time our TMA technology is ready to be commercialized, the SMOLED market may be too small to make this technology profitable. TMA technology may increase the price competitiveness of SMOLED technology and, therefore, increase the barriers to entry for our own P-OLED technology.

***Because we do not manufacture or sell any products to end users, we depend on the manufacturing capabilities of our display manufacturer licensees. Any difficulties or delays affecting their manufacturing processes or any decision to terminate or reduce their display manufacturing businesses could harm our business.***

We license our P-OLED and related technologies to display manufacturers, who then incorporate our technologies into the products that they sell. Because we do not manufacture any commercial products, our success depends on the ability and willingness of our licensees to develop, manufacture and sell commercial products integrating our technologies. Any significant disruption or increase in cost of the manufacturing processes of our display manufacturer licensees or a decision by any of our display manufacturer licensees to terminate or reduce their efforts to manufacture or sell displays would adversely affect our royalty revenues and thus our business.

Mass production of P-OLED displays will require the availability of suitable manufacturing equipment, components and materials. Equipment is currently available for many of the required process steps, but the processes and equipment that will be required to deposit P-OLED materials for large-sized, full-color displays are still under development. High precision ink jet printing equipment that could be used to deposit P-OLED materials is being developed by some companies, but, to our knowledge, is only being made available for sale at this time by Litrex, our former subsidiary. The availability of suitable ink jet printing equipment will be contingent on the continued technical success of and sufficient funding for Litrex's or another manufacturer's development program. In addition, certain of the components, such as low temperature poly silicon backplanes, used in the production of our licensees' display products are available only from a limited number of suppliers.

If display manufacturers are unable to obtain ink jet printing or other suitable P-OLED deposition equipment or are unable to source other key equipment for the manufacture of large panel sizes or, if they experience unexpected difficulties, expenses or delays with respect to additional required technologies, components or other materials, they may experience increased costs or manufacturing delays and may not be able to manufacture larger-sized, full-color P-OLED displays or may exit the display manufacturing business entirely. This would adversely affect our license fees or royalty payments from them, and we may not be able to increase our revenues and achieve profitability.

***We expect to derive an increasing portion of our revenues from royalties on sales of products commercialized by our licensees that incorporate our technology. Our display manufacturer licensees operate in a highly competitive environment, and they may not be able to achieve and sustain market position. If they fail to compete successfully, our royalties will decrease or be eliminated.***

[Table of Contents](#)

Because we do not sell any products directly to end-users, our success depends upon the ability and continuing willingness of our display manufacturer licensees to market commercial products integrating our technology and the widespread acceptance of those products. Any slowdown in the demand for our licensees' products would adversely affect our royalty revenues and thus our business. The markets for our display manufacturer licensees' products are highly competitive, with pressure on prices and profit margins due largely to additional and growing capacity from FPD industry competitors. The principal elements affecting our licensees' competitive performance in the market for end-user products include their abilities to:

- access required capital;
- conduct research and development;
- reduce time-to-market;
- reduce production costs;
- offer a competitive price;
- offer attractive product features and quality;
- offer customer service, including product design support; and
- provide sufficient quantity of products to fulfill end-user demand.

Success in the market for end-user products that may integrate our P-OLED technology also depends on factors beyond the control of our licensees and us, including the cyclical and seasonal nature of the end-user markets that our licensees serve, as well as industry and general economic conditions. If our licensees fail or otherwise reduce their efforts to commercialize products that incorporate our technology or exit the display manufacturing business entirely, our business strategy may fail.

***Many of our competitors have greater resources, which may make it difficult for us to compete successfully against them.***

The FPD industry is characterized by intense competition. Many of our LCD and OLED competitors have better name recognition and greater financial and personnel resources and technical, marketing and research capabilities than us, and because of these differences, we may never be able to compete successfully in the FPD market.

LCD is currently the dominant technology in the FPD market. Many of the leading LCD panel manufacturers, such as AU Optronics, Chunghwa Picture Tubes, LG.Philips, Samsung Electronics and Sharp, are large, established companies with global marketing capabilities, widespread brand recognition and extensive financial resources.

Eastman Kodak Company is our principal competitor in the OLED industry, with a number of licensees already in commercial production of displays incorporating its passive matrix small molecule OLED, or SMOLED, technology and two companies in production of active matrix driven displays.

With the formation of our 50%-owned joint venture, Sumation, we have an interest in the supply of materials to the OLED industry. Merck OLED currently competes with Sumation in the supply of P-OLED materials and other companies, such as DuPont, are believed to be developing similar products. Kodak, Idemitsu Kosan and Universal Display Corporation supply materials to display makers using Kodak' s SMOLED technology.

The leading LCD panel manufacturers, who use competing technologies but are also potential licensees of our P-OLED technology, are considerably larger and more established companies, and they have global marketing capabilities and substantially greater financial resources to devote to research and development than we have. If our technology does not compete effectively with these and other display technologies, our business strategy may fail.

***If our materials supplier licensees fail to make advances in their research, or if they exit that business or otherwise terminate or elect not to renew their relationships with us, we might not succeed in commercializing our P-OLED technology.***

Research and development of commercially viable applications for our P-OLED technology depends substantially on the success of work relating to P-OLED materials, including resolution of issues relating to materials lifetimes and efficiencies at the brightness levels required for large panel applications. We cannot be certain that we or our materials supplier licensees will make sufficient additional advances in the research and development of P-OLED materials to satisfy these requirements. Moreover, if our materials supplier licensees are unable to meet the requirements of our display manufacturer licensees, or if they exit the P-OLED materials supply business or otherwise terminate or elect not to renew their relationships with us and no viable successor can be found, our business strategy may fail.

***If we cannot form and maintain lasting business relationships with P-OLED display manufacturers, our business strategy will fail.***

Our business strategy depends upon our development and maintenance of commercial licensing relationships with high-volume manufacturers of P-OLED displays. We have issued licenses to a number of display manufacturers and have technology development relationships with a number of other companies in the industry for the purpose of evaluating our P-OLED technology for possible use in commercial production. Any of these relationships may fail to result in the display manufacturers entering into a licensing arrangement or, subsequently, commercial production, as applicable, of devices using our P-OLED technology on a scale sufficient for our business strategy to succeed. Moreover, if a licensee is no longer using our technology, it can generally terminate the license agreement upon notice and without further payment to us.

Under our existing technology development and evaluation agreements, we are working with display manufacturers to incorporate our technology into their products for the commercial production of P-OLED displays. However, these technology development and evaluation agreements typically last for limited periods of time, and these relationships may never lead to development of products and entry into license agreements.

Currently, and for the foreseeable future, a significant portion of our revenues are and will be derived from a concentrated number of licensees. Our future success will depend upon our ability to establish and maintain relationships with key licensees and to attract new licensees. If our royalty revenues continue to be derived from a few licensee relationships, our operating results will be harmed if those licensees experience operating difficulties or curtail or terminate their use of our licensed technology, and we are not able to obtain replacement royalty sources. Replacement royalty sources may be difficult to obtain because of the lengthy periods required to attract and sign-up new licensees and have them enter commercial production.

Our ability to enter into additional commercial licenses, or to maintain our existing technology development and evaluation relationships, may require us to make financial or other commitments. We might not be able, for financial or other reasons, to enter into or continue these relationships on commercially acceptable terms or at all. Failure to do so would cause our business strategy to fail.

***Conflicts may arise with our licensees or joint development partners, resulting in renegotiation or termination of, or litigation related to, our agreements with them. This would adversely affect our revenues.***

Conflicts could arise between us and our licensees or joint development partners as to royalty rates, milestone payments or other commercial terms. Similarly, the parties may disagree as to which party owns or has the right to commercialize intellectual property that is developed during the course of the relationship or as to other non-commercial terms. If such a conflict were to arise, a licensee or joint development partner might attempt to compel renegotiation of certain terms of their agreement or terminate their agreement entirely, and we might lose the royalty revenues and other benefits of the agreement. Either we or the licensee or joint development partner might initiate litigation to determine commercial obligations, establish intellectual property rights or resolve other disputes under the related agreements. Such litigation could be costly to us and require substantial attention of management. If we were unsuccessful in such litigation, we could lose the commercial benefits of the agreement, be liable for other financial damages and suffer losses of intellectual property or other rights that are the subject of dispute. Any of these adverse outcomes could cause our business strategy to fail. Some of our licenses contain “most favored nation” provisions. These provisions give licensees the right to reduced royalty rates or refunds of upfront fees in the event that we issue new licenses that have more favorable upfront fee or royalty rates than the existing licenses that contain these “most favored nation” provisions, but are otherwise similar in their terms.

***If we do not receive additional financing in the future, we might not be able to continue the research, development and commercialization of our P-OLED, TMA and related technologies.***

Our capital requirements have been, and will continue to be, significant. Substantial additional funds will be required in the future to maintain current levels of expenditure for research, development and commercialization of our P-OLED, TMA and related technologies, to obtain and maintain patents and other intellectual property, or IP, rights in these technologies, as well as for working capital and other purposes, the timing and amount of which are difficult to forecast. If we do not achieve our revenue goals, our cash on hand may not be sufficient to meet all of our future needs. When we need additional funds, such funds may not be available on commercially reasonable terms or at all. If we cannot obtain more money when needed, we might be forced to cut

back our current activities and our business might fail. We expect, based on our internal forecast and assumptions relating to our operations (including, among others, assumptions regarding our working capital requirements, the progress of our research and development efforts and our revenues, including stage payments due to us pursuant to our contractual arrangements with Matsushita Electrical Industrial), that we will have sufficient cash to meet our obligations for at least the next 12 months. If at some future time, we are unable to demonstrate that we have sufficient cash to meet our obligations for at least the following 12 months, we might have to reconsider the "going concern" basis of presentation in our financial statements and this might adversely impact our ability to raise additional funds.

In November 2005, we sold Litrex to ULVAC, Inc. of Japan. Under the terms of our agreements with Litrex and ULVAC, they are obligated to continue to support Litrex' s development of ink jet printers for the display manufacturing industry. If they do not fulfill this obligation, we may exercise our rights under a fallback license to obtain the necessary IP to develop, manufacture and supply ink jet printing equipment for use by manufacturers using our P-OLED technology independent of Litrex. In any such circumstance, we may incur substantial additional costs in order to ensure that ink jet printing equipment is made available for P-OLED display manufacturers. We have the right, but no obligation, to fund ink jet printing development programs at Litrex and may incur costs in doing so if we believe this is necessary for the furtherance of our P-OLED technology.

If we are unable to meet our currently projected liquidity requirements from our existing resources, we may need to borrow money or issue additional equity or debt securities. We may not be able to borrow money on commercially reasonable terms or at all. If we attempt to raise money in an offering of shares of our common stock, preferred stock, warrants or debt securities, or if we engage in acquisitions involving the issuance of such securities, our then-existing stockholders may be diluted. If we are unable to obtain required financing or reasonable terms, our business may fail.

Sumation, our 50%-owned joint venture with Sumitomo Chemical, will require additional funding in future periods. If we are unable to provide such funding our ownership interest may become diluted and the potential realizable value from this investment may be reduced.

***We or our licensees may incur substantial costs or lose important rights as a result of litigation or other proceedings relating to our patent and other intellectual property rights.***

In recent years, there has been significant litigation involving patents and other IP rights in many technology-related industries, including our own.

There may be patents owned by third parties that may be infringed by the use of our technology or a part thereof, thus substantially interfering with the future conduct of our or our licensees' businesses. Our licensees could be sued by such parties for patent infringement. Such lawsuits could subject them to liability for damages, prevent our licensees from incorporating such patented technology in their products or require our licensees to obtain additional licenses that could increase the cost of their products. As a result there could be an adverse affect on their sales and thus our royalties and this could also cause our licensees to seek to renegotiate our royalty rates. This problem is made more difficult to evaluate, because certain patent applications in the United States are retained in secrecy unless and until the patent issues.

In addition, in the future we may assert our IP rights by instituting legal proceedings against others. We cannot assure you that we will be successful in enforcing our patents in any lawsuits we may commence. Defendants in any litigation we may commence to enforce our patents may attempt to establish that our patents are invalid or are unenforceable. Thus, any patent litigation we commence could lead to a determination that one or more of our patents are invalid or unenforceable. If a third party succeeds in invalidating one or more of our patents, that party and others could compete more effectively against us. Our ability to derive licensing revenues from products or technologies covered by these patents could also be adversely affected.

Whether our licensees are defending the assertion of third-party IP rights against their businesses arising as a result of the use of our technology, or we are asserting our own IP rights against others, such litigation can be complex, costly, protracted and highly disruptive to our or our licensees' business operations by diverting the attention and energies of management and key technical personnel. As a result, the pendency or adverse outcome of any IP litigation to which we or our licensees are subject could disrupt business operations, require the incurrence of substantial costs and subject us or our licensees to significant liabilities, each of which could severely harm our business.

Plaintiffs in IP cases often seek injunctive relief. Any IP litigation commenced against our licensees could force them to take actions that could be harmful to their business and thus to our royalties, including the following:

stop selling their products that incorporate or otherwise use technology that contains our allegedly infringing IP;

attempt to obtain a license to the relevant third-party IP, which may not be available on reasonable terms or at all; or

attempt to redesign their products to remove our allegedly infringing IP to avoid infringement of the third-party IP.

If our licensees are forced to take any of the foregoing actions, they may be unable to manufacture and sell their products that incorporate our technology at a profit or at all. Furthermore, the measure of damages in IP litigation can be complex and is often subjective or uncertain. If our licensees were to be found liable for infringement of proprietary rights of a third party, the amount of damages they might have to pay could be substantial and is difficult to predict. Decreased sales of our licensees' products incorporating our technology would adversely affect our royalty revenues under existing licenses. Any necessity to procure rights to the third-party technology might cause our existing licensees to renegotiate the royalty terms of their license with us to compensate for this increase in their cost of production or, in certain cases, to terminate their license with us entirely. Were this renegotiation to occur, certain of our license agreements that contain "most favored nation" provisions, requiring that we offer at least as favorable terms to the holder of such a license as we offer to any other licensee, would be affected and we would also receive reduced royalties from those licenses. These developments would also harm our ability to compete for new licensees and would adversely affect the terms of the royalty arrangements we could enter into with any new licensees.

As is commonplace in technology companies, we employ individuals who were previously employed at other technology companies. To the extent our employees are involved in research areas that are similar to those areas in which they were involved at their former employers, we may be subject to claims that such employees or we have, inadvertently or otherwise, used or disclosed the alleged trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against such claims. The costs associated with these actions or the loss of rights critical to our or our licensees' business could negatively impact our revenues or cause our business to fail.

***If we cannot obtain and maintain appropriate patent and other intellectual property rights protection for our P-OLED, TMA and related technologies, our business will suffer.***

The value to us of our P-OLED, TMA and related technologies is dependent on our ability to secure and maintain appropriate patent and other IP rights protection. Although we own or license many patents covering our technology that have already been issued, there can be no assurance that additional patents applied for will be obtained or that any of these patents, once issued, will afford commercially significant protection for our technology or will be found valid if challenged. Moreover, we have not obtained patent protection for some of our technology in all foreign countries in which P-OLED displays or materials, or chips incorporating our TMA technology, might be manufactured or sold. In any event, the patent laws and enforcement regimes of other countries may differ from those of the United States as to the patentability of our P-OLED, TMA and related technologies and the degree of protection afforded.

The strength of our current P-OLED IP position results primarily from the essential nature of our fundamental patents covering the P-OLED device and its manufacturing process and electroluminescent devices containing conjugated polymers. These patents expire in 2010, 2011 and 2015. While we hold a wide range of additional patents and patent applications whose expiration dates extend (and in the case of patent applications, will extend) well beyond 2015, many of which are also of key importance in the OLED industry, none is of an equally essential nature as our fundamental patents, and therefore our competitive position after their expiration may be less certain.

We may become engaged in litigation to protect or enforce our patent and other IP rights or in International Trade Commission proceedings to abate the importation of goods that would compete unfairly with those of our licensees. In addition, we may have to participate in interference or reexamination proceedings before the U.S. Patent and Trademark office, or in opposition, nullity or other proceedings before foreign patent offices, with respect to our patents or patent applications. All of these actions would place our patents and other IP rights at risk and may result in substantial costs to us as well as a diversion of management attention. Moreover, if successful, these actions could result in the loss of patent or other IP rights protection for the key P-OLED, TMA and related technologies on which our business strategy depends.

In addition, we rely in part on unpatented proprietary technology, and others may independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets, know-how and other proprietary information, we require employees, consultants, financial advisors and strategic partners to enter into confidentiality agreements. These agreements may not ultimately provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of those trade secrets, know-how or other proprietary information. In particular, we may not be able to fully or adequately protect our proprietary information as we conduct discussions with potential strategic partners. If we are unable to protect the proprietary nature of our technology, it will harm our business.

***We are subject to developments in and expenses associated with resolving matters currently in litigation.***

We have been and may continue to be the subject of complaints or litigation in connection with disputes unrelated to patent or other IP rights described above. We are currently the subject of litigation with Sunnyside as described under "Legal Proceedings" in Item 1 of Part II above. There is considerable risk associated with any litigation, particularly litigation such as this action, which has been the subject of a jury verdict and the ultimate outcome of which will be affected by a number of factors beyond our control. As is also the case with other complaints or litigation to which we may become subject, we may incur significant legal costs in continuing to defend or settling the action with Sunnyside, and if a court finds against us, we could be liable for substantial financial damages or suffer other losses that are the subject of dispute. Such complaints and litigation are also often complex and protracted and disrupt our business operations by diverting the attention and energies of management and key technical personnel. As a result, the pendency or adverse outcome of such complaints and litigation could require the incurrence of substantial costs, subject us to significant liabilities and otherwise disrupt our business operations, each of which could severely harm our business.

We review any outstanding claims against us with internal and, if deemed appropriate, external legal counsel to assess the probability and estimates of loss. We reassess the risk of loss as new information becomes available and we adjust liabilities, if any, as appropriate. The actual cost of resolving any claims may be substantially different from the amounts of liability recorded. We have not recorded any liability with respect to the action by Sunnyside referred to above.

***We are exposed to currency fluctuations, which may have an adverse effect on us.***

A substantial majority of our licensing revenues are denominated in U.S. dollars. These licensing revenues include royalties based on revenues or production costs of our licensees that may be denominated in U.S. dollars or other currencies. Where such revenues or production costs of our licensees are denominated in other currencies, they are converted to U.S. dollars for the purpose of calculating any licensing royalties due to us. Our licensing royalty revenues may decrease as a result of any appreciation of the U.S. dollar against these other currencies. The majority of our current expenditures are incurred in British pounds in order to fund our operations in the United Kingdom. If the U.S. dollar depreciates versus the British pound, additional U.S. dollars will be required to fund our operations in the United Kingdom.

We do not currently take out forward contracts, but we may do so in the future, the management of which we may outsource to third parties. There is no guarantee that we or any such third parties will be successful in reducing the risks to us of our exposure to foreign currency fluctuations and these fluctuations may adversely affect our results of operations, financial condition or cash flows.

***We are a holding company with no significant independent operations, and we therefore rely on our subsidiaries to make funds available to us.***

We are a holding company with no significant independent operations and no significant assets other than the capital stock of our subsidiaries. We, therefore, will be dependent upon the receipt of dividends or other distributions from our subsidiaries. The declaration of dividends by our subsidiaries will be subject to the discretion of their boards of directors and will depend on a number of factors, including their results of operations, financial condition, liquidity requirements and indebtedness and restrictions imposed by applicable law. Our inability to receive funds from our operating subsidiaries would adversely affect our ability to meet our obligations and to make dividend payments and other distributions, if any, to holders of our common stock.

***Due to our significant level of international operations, we are subject to international operational, financial, legal and political risks that may negatively impact our operations.***

A substantial part of our operations are in the United Kingdom, one of our senior executives is resident in Japan, and many of our licensees have a majority of their operations in countries outside the United States and Europe. Risks associated with our doing business internationally include:

- compliance with a wide variety of foreign laws and regulations, particularly labor, environmental and other laws and regulations that govern our operations in the United Kingdom;

legal uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;

potentially difficulties in managing an organization effectively where management is geographically dispersed;

- difficulties in creating and maintaining effective business relationships in foreign cultural environments;
- economic instability in the countries of our licensees, particularly in the Asia-Pacific region, causing delays or reductions in orders for their products and therefore our royalties;
- political instability in the countries in which our licensees operate, particularly in South Korea relating to its disputes with North Korea and in Taiwan relating to its disputes with China;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles; and
- potentially adverse tax consequences.

Any of these factors could harm our or our licensees' existing international operations and business and impair our or our licensees' ability to continue expanding into international markets.

A significant portion of our assets and most of our executive officers are located outside of and are not residents of the United States. As a result, it may be difficult or impossible for U.S. investors to effect service of process upon such non-resident directors or officers within the United States or to realize against them in the United States upon judgment of courts of the United States predicated upon civil liabilities under the federal securities laws of the United States or the securities or blue sky laws of any state or other jurisdiction within the United States. In addition, courts of another country may not enforce judgments of United States courts obtained in actions against us, our directors or officers predicated upon the civil liability provisions of the United States federal securities laws or the securities or blue sky laws of any state or other jurisdiction within the United States or enforce, in original actions, liabilities against us, our directors or our officers predicated upon the United States federal securities laws or any state securities or blue sky laws.

***Our agreements with our licensees and joint development partners are subject to regulation by the European Commission, and particularly to antitrust provisions of such regulations, which could result in fines to us or in those agreements being declared void in whole or in part, either of which would negatively impact our revenues.***

Our IP licensing agreements and joint development agreements fall under the antitrust provisions of the Treaty of Rome and related regulations. While our display license agreements are generally non-exclusive and without geographic restriction, and while our licensing and joint development relationships generally represent lower market shares than would result in the application of the regulations' remedies, any violation of the regulations could result in the anti-competitive provisions or the entire relevant agreement being declared void and unenforceable. In addition, we could be subject to a fine of up to 10% of the income of our worldwide group.

***If we cannot keep our key employees or hire other talented persons as we grow, our business might not succeed.***

Our performance is substantially dependent on the continued services of senior management, particularly our Chief Executive Officer who has been principally responsible for establishing and maintaining many of our most important commercial relationships, and our Chief Technology Officer, who was one of the inventors of our fundamental P-OLED technology and helps direct our technology development program, and on our ability to offer competitive salaries and benefits to our employees. Also, our Chief Executive Officer's current employment agreement with us expires in December 2008. We do not carry key person life insurance on any of our senior management or other key personnel. If we lose the services of key senior management personnel, we may not be able to find suitable replacements in a timely manner or at all, which would seriously harm our business. Additionally, competition for highly skilled technical, managerial and other personnel is intense. We might not be able to attract, hire, train, retain and motivate the highly skilled managers and employees that we might need to be successful. If we fail to attract and retain the necessary technical and managerial personnel, our business will suffer and might fail. We currently have fewer than 140 employees, and we may encounter increasing difficulty in attracting enough qualified personnel as our operations expand and the demand for their services increases. This difficulty could impede the attainment of our research and development objectives and cause our business strategy to fail.

In February 2007, we awarded restricted stock units to a number of our senior executives as a long term incentive. These units vest over a two-year period that will end in December 2008, and are intended to retain the services of these executives during this period. There is no assurance that the award of these units will be effective in retaining their services or that we will be able to continue to retain their services after these restricted stock units have fully vested.

***Our Technology Development Center and our research and development laboratories are critical to our success.***

Our Technology Development Center in Godmanchester, England and our research and development laboratories are critical to our success. These facilities currently house our principal research, development, engineering and design operations. Our research and development activities involve the controlled use of a small amount of hazardous substances as well as other potentially harmful materials, waste and chemicals, which could cause interruption of our research and development efforts or injury to our employees, resulting in liabilities under federal, state, local or foreign laws or regulations governing the use, storage and disposal of these materials. While to date we have not had any issues relating to the use of hazardous materials, any event that causes a disruption of the operation of these facilities for even a relatively short period of time would adversely affect our ability to conduct research and development operations and to provide technical support for our licensees, which would negatively affect our revenues.

***If we acquire or invest in any companies or technologies or enter into joint ventures in the future, they could prove difficult to integrate, disrupt our business, dilute stockholder value or have an adverse effect on our results of operations.***

We intend to expand our business primarily through internal growth, but from time to time we may consider strategic acquisitions or other investments, as well as joint ventures, to develop P-OLED materials and displays and related technologies. Any future acquisition, investment or joint venture would involve numerous risks, including:

- potential disruption of our ongoing business and distraction of management;
- difficulty integrating the operations and products of the acquired business;
- unexpected expenses related to technology integration;
- exposure to unknown liabilities, including litigation against the companies we may acquire or in which we invest or the joint ventures we form;
- future losses or failure of the acquired business resulting in the impairment of the carrying value of any investment;
- additional costs due to differences in culture, geographic locations and duplication of key talent; and
- potential loss of key employees or customers of the acquired company.

In addition, the failure to complete any such acquisition, investment or joint venture after it has been announced and negotiations commenced may have an adverse effect on our business, including the diversion of our management' s time and attention, the negative impact on our business prospects or a decline in the market price for shares of our common stock.

We have made investments in Add-Vision Inc., a California company, and MicroEmissive Displays, or MED, which is a publicly quoted company in the United Kingdom. We may not be successful in addressing the risks or any other problems encountered in connection with these or other investments. If the companies in which we invest are not successful in achieving their business objectives the value of their stock may fall and we might have to write down the respective values of our investments.

In November 2005, we and Sumitomo Chemical entered into a joint venture agreement, which provides for the organization and capitalization of Sumation to develop and supply advanced P-OLED materials and formulated inks for use in commercial P-OLED displays and lighting applications. Each party to the joint venture agreement has contributed initial working capital to Sumation in exchange for a 50% voting and ownership interest, with an initial two-year budget and any additional funds to be funded equally by each party. To the extent that Sumation does not achieve its expected sales revenues or margins, we may need to provide 50% of any additional working capital funding requirements, although we will be under no formal obligation to do so. The joint venture agreement includes provisions for the possible sale of part or all of our equity stake to Sumitomo Chemical at fair market value after a minimum of five years. After the initial two-year period of the joint venture, the parties have agreed to engage in good faith discussions regarding how the manpower and facilities requirements of the joint venture will be resourced in the third and subsequent years. The joint venture agreement may be terminated by either party by mutual written agreement, or by one of the parties in the case of a material breach of the other party. It may also be terminated in the event of the bankruptcy or insolvency of either party, or if a 40% interest is acquired in one party by a direct and substantial competitor of the other joint venture party. The agreement will also terminate if Sumitomo Chemical acquires 100% of the shares in Sumation.

Although we already had a strong research relationship with Sumitomo Chemical, we believe that the strengthening of our relationship through the formation of this joint venture is the most effective way of accelerating P-OLED material development in the future. There can be no assurance, however, that the joint venture will not be terminated or that part or all of our interest in Sumation will not be acquired or that we will be successful in addressing the risks described above or any other problems encountered in connection with our joint venture, whether as a result of potential disruption of our ongoing business and distraction or duplication of management and other key talent or additional and unexpected costs and expenses related to technology integration or that could result from cultural differences or as a result of the geographic location of the joint venture in Japan.

## Risks Relating to our Common Stock and Financial Results

***Our operating results may have significant period-to-period fluctuations, which would make it difficult to predict our future performance.***

Due to the current stage of commercialization of our technology and the significant development and manufacturing objectives that we and our licensees must achieve to be successful, our quarterly operating results will be difficult to predict and may vary significantly from quarter to quarter.

We believe that period-to-period comparisons of our operating results are not a reliable indicator of our future performance at this time. Among other factors affecting our period-to-period results, our license fees often consist of large one-time payments in the period during which we enter into a new license, followed by smaller recurring payments in later periods, resulting in significant fluctuations in our revenues. We recognize revenues in accordance with accounting principles generally accepted in the United States and, depending on the exact nature of the deliverables in any agreement, or set of agreements entered into contemporaneously, the recognition of revenues may be substantially delayed following receipt of cash from our customers and may be difficult to predict. If, in some future period, our operating results or business outlook fall below the expectations of securities analysts or investors, our stock price would be likely to decline and investors in our common stock may not be able to resell their shares at or above the price at which they were purchased. Broad market, industry and global economic factors may also materially reduce the market price of our common stock, regardless of our operating performance.

***The market price of our common stock may be highly volatile.***

The market price of our common stock has been highly volatile, as has been the case with the securities of many other emerging growth companies. Factors such as the following may have a significant impact on the market price of our common stock in the future:

- our operating results and capital resources;

- announcements by us or our competitors of technological developments, new product applications or license arrangements; and

- other factors affecting the FPD and related industries in general.

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies like us.

***One of our stockholders owns a significant amount of our common stock. If this ownership concentration continues, it could prevent you and other stockholders from influencing significant corporate decisions.***

Affiliates of Kelso & Company, or Kelso, beneficially own approximately 40% of the outstanding shares of our common stock. Kelso is also represented on our board. As a result, Kelso exercises significant influence over matters requiring stockholder approval. The concentrated holding of Kelso may result in the delay or deterrence of possible changes in control of our company, which may negatively impact the market price of our common stock. The interests of Kelso and other of our existing stockholders may conflict with the interests of our other stockholders.

***Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.***

We have never declared or paid any cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the operation and growth of our business and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Table of Contents

***Our share price may decline due to the large number of shares eligible for future sale.***

Sales of substantial amounts of our common stock, or the possibility of such sales, may adversely affect the price of our common stock and impede our ability to raise capital through the issuance of equity securities. As of June 30, 2007, there were 21,630,703 shares of our common stock outstanding. In addition, we may in the future issue additional shares of our common stock that might be or become freely transferable, including shares that may be issued under additional registration statements that we may file, such as our shelf registration statement described below, upon the exercise of warrants or options or pursuant to our special bonus or other plans.

| | | |
|---|---|---|
| Shares freely transferable without restriction or further registration under the Securities Act of 1933 pursuant to Rule 144 or otherwise * | 12,853,353 | 59.4 % |
| Shares held by executive officers * | 119,517 | 0.6 % |
| Shares held by Kelso and eligible for sale under Rule 144 * | 8,657,833 | 40.0 % |
| **Total shares outstanding at June 30, 2007** | **21,630,703** | **100.0%** |
| Shares issuable pursuant to outstanding warrants | 659,464 | |
| Shares issuable pursuant to outstanding stock options | 665,681 | |
| Shares issuable pursuant to awards under our special bonus plan | 999,705 | |
| Shares issuable pursuant to other restricted stock unit awards | 789,258 | |
| Shares issuable pursuant to other contractual arrangements | 256,959 | |
| Shares reserved for future grants under stock incentive plans | 136,364 | |

* stock held by affiliates is subject to volume, manner of sale, holding period and other limitations of Rule 144

We have registered 6.5 million shares of our common stock with the SEC under a "shelf" registration statement on Form S-3, which covers 3.9 million shares that may be issued and sold by us and 2.6 million outstanding shares that may be sold by certain selling stockholders, including Kelso. We have entered into a contract with Next Sierra, pursuant to which we are required to file a registration statement with the SEC for 28,551 shares of our common stock which were issued to Next Sierra in January 2007 and 256,959 shares which may be issued to them in future.

Kelso, which, together with its affiliates, owns an aggregate of approximately 40% of the outstanding shares of our common stock, has rights, subject to some conditions, to require us to file registration statements covering the unregistered shares that it currently holds or may acquire or to include these shares in registration statements that we may file for ourselves or other stockholders, including in connection with our shelf registration statement described above. Sales by Kelso of a substantial number of shares could significantly reduce the market price of our common stock.

The price of our common stock can be expected to decrease if we issue additional shares of our common stock that might be or become freely salable, including shares that may be issued under additional registration statements that we may file, such as our proposed shelf registration described above, upon the exercise of warrants or options or pursuant to our special bonus or other plans.

***We can issue shares of preferred stock that may adversely affect your rights as a shareholder of our common stock.***

Our certificate of incorporation authorizes us to issue up to 46,667 shares of preferred stock with designations, rights and preferences determined from time-to-time by our board of directors. Accordingly, our board of directors is empowered, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of stockholders of our common stock. For example, an issuance of shares of preferred stock could:

adversely affect the voting power of the stockholders of our common stock;

make it more difficult for a third party to gain control of us;

discourage bids for our common stock at a premium;

limit or eliminate any payments that the stockholders of our common stock could expect to receive upon our liquidation; or

otherwise adversely affect the market price of our common stock.

We may issue additional shares of authorized preferred stock at any time in the future.

***We are incurring costs as a result of being a public company.***

We incur significant legal, accounting, administrative and other costs and expenses as a public company. We are required to comply with the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Global Market. Compliance with these rules and regulations causes us to incur legal, audit and financial compliance costs, and diverts management attention from operations and strategic opportunities. We will incur additional costs in evaluating and reporting on our internal control over financial reporting and having our independent auditors annually attest to our evaluation as required by Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations thereunder, which we expect to commence with our Annual Report on Form 10-K for the fiscal year ending December 31, 2007. We are preparing to comply with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our initial report on our internal control over financial reporting. The process of strengthening our internal controls and complying with Section 404 is expensive and time consuming, and it requires significant management attention. We cannot be certain that these measures will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Effective internal controls are necessary for us to provide reliable financial reports. We have in the past discovered, and may in the future discover, areas of our internal controls that require improvement. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent auditors discover a material weakness, the disclosure of the fact, even if quickly remedied, could reduce the market' s confidence in our financial statements and harm our stock price. In addition, non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from the Nasdaq Global Market and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price.

We are required to retain independent directors to serve on our board of directors. If vacancies on our board of directors or our audit committee occur that need to be filled by independent directors, we may encounter difficulty in attracting qualified persons to serve on our board, and, in particular, our audit committee. If we fail to attract and retain the required number of independent directors we may be subject to SEC enforcement proceedings and delisting of our common stock from the Nasdaq Global Market. We are also incurring high costs to maintain directors and officers insurance.

***Our certificate of incorporation and bylaws and Delaware law may discourage takeovers and business combinations that our stockholders might consider in their best interests.***

Provisions in our certificate of incorporation and by-laws may delay, defer, prevent or render more difficult a takeover attempt that our stockholders might consider in their best interests. These provisions may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

## Risks Relating to the Proposed Merger with Sumitomo

***We cannot make any assurance that the proposed merger will be completed.***

Completion of the proposed merger is subject to customary closing conditions, including approval of the merger agreement and the merger by a majority of our stockholders, the absence of any material adverse effect on our company and the election of statutory appraisal rights by holders of no more than 10% of our common stock. We cannot guarantee that these closing conditions will be satisfied.

***Failure to complete the proposed merger could have a negative impact on the market price of our common stock and our business.***

If the proposed merger is not completed, the price of our common stock may decline to the extent that the current market price reflects a market assumption that the proposed merger will be completed. In addition, if the proposed merger is not completed:

our management’ s attention from our day-to-day business may be diverted;

- we may lose key employees;

- our business and operations may be harmed to the extent that our licensees, joint development partners or others believe that we cannot compete effectively in the marketplace without the merger;

- our relationships with our licensees or joint development partners may be disrupted as a result of uncertainties with regard to our business and prospects; or

- under specified circumstances we may be required to pay a termination fee of $11.3 million to Sumitomo in connection with a termination of the merger agreement or to reimburse Sumitomo for its expenses up to $8 million

Any such events could have a material negative impact on our results of operations and financial condition and could adversely affect our stock price.

Table of Contents

**Item 4. Submission of Matters to a Vote of Security Holders**

(a) The Annual Meeting of Stockholders was held on June 5, 2007.

(b) The matters voted upon at the meeting and results of the voting with respect to those matters were as follows:

(1) Election of Directors:

| | Votes For | Withheld |
|---|---|---|
| Dr. David Fyfe | 15,621,235 | 1,491,930 |
| Dr. Malcolm J. Thompson | 16,834,582 | 278,583 |
| Joseph Carr | 16,834,882 | 278,283 |
| Frank K. Bynum, Jr. | 16,817,882 | 295,283 |
| Thomas G. Rosencrants | 16,832,582 | 280,583 |

(2) Ratification of the appointment of Ernst & Young LLP as the Company' s independent registered public accounting firm

| Votes For | Against | Abstain |
|---|---|---|
| 17,108,359 | 3,465 | 1,340 |

**Item 6. Exhibits**

| Exhibit Number | | Description of Document |
|---|---|---|
| 2.1 | | Agreement and Plan of Merger, dated as of July 31, 2007, by and among Sumitomo Chemical Co., Ltd, Rosy Future, Inc. and the Registrant (incorporated by reference to Exhibit 2.1 to the Registrant' s Current Report on Form 8-K dated July 31, 2007 (File No. 000-51079)) |
| 10.1† | | Patent Licence for Displays and Display Illumination dated June 25, 2007 between Cambridge Display Technology Limited and Sumitomo Chemical Co., Ltd. |
| 31.1 | | Rule 13a-14(a) Certification of Principal Executive Officer |
| 31.2 | | Rule 13a-14(a) Certification of Principal Financial Officer |
| 32.1 | (1) | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) |
| 32.2 | (1) | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) |

(1) In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management' s Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the material contained in Exhibits 32.1 and 32.2 is "furnished" and not deemed "filed" with the SEC. and is not to be incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Exchange Act whether made before or after the date hereof and

irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

† An application for confidential treatment has been filed with the SEC with respect to certain portions of this agreement.

Table of Contents

## SIGNATURES

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

CAMBRIDGE DISPLAY TECHNOLOGY, INC.

Dated: August 14, 2007

By: /s/ DAVID FYFE
DAVID FYFE
Chief Executive Officer
(Principal Executive Officer)

Dated: August 14, 2007

By:
/s/ MICHAEL BLACK
MICHAEL BLACK
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 10.1**

CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION.

**Patent Licence for Displays and Display Illumination**

**Between**

**CAMBRIDGE DISPLAY TECHNOLOGY LIMITED**

**and**

**SUMITOMO CHEMICAL CO., LTD.**

**This Display Licence Agreement (**the "**Agreement**"**)** effective as of the date of the last signature set forth hereto (the "**Effective Date**")

**Between:**

(1) **Cambridge Display Technology Limited** (company number 2672530) whose registered office is at Building 2020, Cambourne Business Park, Cambridgeshire, CB23 6DW ("**CDT**")

and

(2) **Sumitomo Chemical Co., Ltd.,** a Japanese corporation having offices at 27-1, Shinkawa 2-chome, Chuo-ku, Tokyo 104-8260 Japan (the "**Licensee**").

**Background:**

(A) The CDT Group (as herein defined) is the owner of inventions relating to Electroluminescent Polymer (which term is defined below) devices, in respect of which the CDT Group has obtained and made applications for patent protection in various countries.

(B) The Licensee wishes to acquire a licence under the CDT Group' s patents and patent applications to manufacture, and sell Electroluminescent Polymer display devices, and CDT is willing to procure the grant of such a licence upon and subject to the provisions set out in this agreement.

**It is agreed** as follows:

**1. Definitions and interpretation**

1.1 In this Agreement unless the context otherwise requires:

| | |
|---|---|
| "**Active Matrix Module**" | means substrates consisting of glass or any other rigid or flexible material incorporating where required by device architecture, electrodes, transport layer, Electroluminescent Polymer, supporting layers and encapsulants, filters, support structure, circuit boards, flexible connectors, together with the electronic drivers and other support circuitry to effect illumination of the display device, where at least the individual pixels are driven using TFT Technology; |
| "**Affiliate**" | means with respect to any specified entity, any other person or entity directly or indirectly controlling or controlled by or under direct or indirect common control |

with such specified person or entity. For the avoidance of doubt, in those instances where (i) an Affiliate is a Joint Venture, the term "Affiliate" shall not include or be deemed to include either any company (other than CDT, CDT Inc, CDT Holdings or a Subsidiary of the foregoing) which is a party to that Joint Venture or any other person or entity directly or indirectly controlling or controlled by or under direct or indirect common control with such company; and, (ii) where, after the Effective Date, as a result of an arm' s length transaction an independent bona fide third party acquires control of either CDT or CDT Inc. or CDT Holdings then the term "Affiliate" shall not include or be deemed to include either any such independent third party or any company which control or is controlled by such third party (other than CDT, CDT Inc., CDT Holdings or any person or entity which is controlled by the foregoing).

For the purposes of this definition, "control", as used with respect to any person or entity, shall mean the direct or indirect ownership or control, whether through the ownership of voting securities, by agreement or otherwise, of more than Fifty percent (50%) in nominal value of the issued equity share capital or more than Fifty percent (50%) of the shares entitled to vote upon the election of directors or persons performing similar functions. For the purposes of this definition "controlling", "controlled by" and "under common control with" shall have correlative meanings;

"**Agreement**" means this Agreement (including any schedule or annexure to it and any document in agreed form);

| | |
|---|---|
| “**Approved Joint Venture**” | means such company or legal entity in respect of which (i) no more than “***” nor less than “***” of whose voting rights of each class of shares is now or hereafter directly owned or controlled by Licensee, and (ii) Licensee shall have notified CDT, in writing, that Licensee wishes such company or legal entity to be treated as a licensee under the terms of this Agreement. |
| “**CDT Holdings**” | means CDT Holdings Limited, a U.K. company (company number 3070465); |
| “**CDT Inc**” | means Cambridge Display Technology, Inc., a Delaware corporation; |
| “**CDT Group**” | means CDT and any Affiliate of CDT; |
| “**Commercial Production**” | means the manufacture of LEP Devices other than solely for the purposes of creating test, sample, or demonstration versions of the LEP Device or Finished Device, as the case may be. For the avoidance of doubt, Commercial Production shall be deemed to have taken place immediately after the Licensee shall have manufactured, or had manufactured, LEP Devices or Finished Devices for the purposes of Transfer and Transferred such displays to an Affiliate or third party customer; |
| “***” | “***” |
| “**Electroluminescent Polymer**” | means any material deposited by solution processing that is electroluminescent and where at least one ingredient is a polymer; |
| “**Finished Product**” | means any article (whether or not complete) produced by or for the Licensee or any member of the Licensee’ s Group which incorporates an LEP Device and additional components; |

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

| | |
|---|---|
| “**Glass**” | means substrates consisting of glass or other rigid or flexible material incorporating where required by device architecture: electrodes, transport layer, Electroluminescent Polymer and polymer, supporting layers and encapsulants but without electronic drivers; |
| “**Holding Company**” | has the meaning given to that expression by section 144 of the Companies Act 1989; |
| “**Initial Lump Sum Fee**” | means the non refundable lump sum of “***”; |
| “**Intellectual Property**” | any patent, trade or service mark (whether registered or not), copyright, registered design, design right and topography right or any other form of protection, any right to apply or application for such protection, and any rights in any secret process, know-how, technical reports, designs, confidential information or otherwise or any associated or similar right or protection and any rights under licences and consents in relation to any of the foregoing subsisting at the relevant time in any jurisdiction, anywhere in the world; |
| “**Joint Venture**” | means a legal entity, the voting shares of which are owned by more than one company; |
| “**Know-how**” | means any existing and future technical information, data, applications, formulae, models, computations, applied technology, computer simulations, designs, drawings, expertise and know-how related to the Patents or LEP Devices which is owned by CDT or any other member of the CDT |

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

| | |
|---|---|
| | Group and, any improvements related to any of the foregoing, and which (a) is exclusively owned or jointly owned by CDT or any other member of the CDT Group; (b) CDT and the CDT Group has an unrestricted right and ability to disclose and sublicense to third parties and where such right to grant sublicences is not conditional upon CDT or a CDT Group member making any form of payment or other form of compensation to any relevant third party; and, (c) does not consist of information or materials in respect of which, in accordance with its normal commercial policy, CDT or any other CDT Group member grants licences in consideration for payment of a royalty; |
| "**LEP**" | means light emitting polymer material formed from an Electroluminescent Polymer; |
| "**LEP Device**" | means an electronic device (which device is covered by one or more Valid Claim) in which light is generated by LEP to produce (i) a visible representation comprising Glass, a Passive Matrix Module or an Active Matrix Module, as the case may be, and (ii) backlighting to, and solely to the extent the same is necessary for, such visible representation (but excluding any lighting device intended for use primarily as a source of area illumination), which devices may be driven by a TMA Driver Chip and shall be of any resolution and shall have a viewable diagonal dimension which is either "***" whichever the Licensee shall have elected prior to entering into Commercial Production, by serving prior written election on CDT in accordance with Clause 2.8; |
| "**Licence**" | means the licence rights granted pursuant to Clause 2; |
| "**Licensee' s Group**" | means, in relation to the Licensee: |
| | (a) the Licensee itself; and, |

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

(b) any other company which, at the relevant time, is a Subsidiary or Approved Joint Venture of the Licensee and has been included as a licensee in accordance with Clause 2.3;

“**Minimum Royalty**” means, in relation to each Year, such sum (payable in US$) as the parties shall mutually agree upon, as a result of good faith negotiations, having considered “***”, prior to commencement of Commercial Production of LEP Devices or, as the case may be, Finished Devices provided always that:

(i) such sum shall not exceed “***”; and,

(ii) in the event that CDT and Licensee are not able to agree upon such Minimum Royalty through good faith negotiations by the first (1st) anniversary of the date of Commercial Production, then the Minimum Royalty shall be fixed at the sum of “***” beginning in the Year following the Year in which Net Sales of “***” are achieved or three (3) years after commencement of Commercial Production, whichever first occurs

“**Net Sales Value**” means, in respect of LEP Devices to be produced under the Patents, the amount invoiced to the customer in respect of such Transfer, less:

(i) any turnover tax, value added tax or other sales tax;

(ii) any packaging, packing, freight, warehousing, carriage and insurance charges;

(iii) custom duties and;

(iv) any discounts or rebates granted to the customer;

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

and after deduction of any allowances for lost or damaged merchandise or returns;

provided, however, that a calculation method for the amount in respect of LEP Devices incorporated into a Finished Product shall be separately agreed upon between the parties hereto before Licensee enters into Commercial Production of the products concerned;

| | |
|---|---|
| "**Passive Matrix Module**" | means substrates consisting of glass or any other rigid or flexible material incorporating where required by device architecture, electrodes, transport layer, Electroluminescent Polymer, supporting layers and encapsulants together with the electronic row and column drivers, and in the case of TMA displays the TMA processor and other support circuitry to effect illumination of the entire display or individual pixels as well as all polarisers, the support frame, filters connection tabs and all other elements comprising the module, where there are no separate individual pixel driving circuits; |
| "**Patents**" | means: |

1) the patents and patent applications listed in Schedule 1;

2) all future patents and patent applications that may be filed by or on behalf of CDT or a CDT Group member which are related to LEP display architecture and/or manufacture and which CDT or a CDT Group member exclusively owns or jointly owns, has an unrestricted right and ability to grant licenses thereto and such right to grant licences is not conditional upon CDT or a CDT Group member making any form of payment or other form of compensation to any relevant third party; and

3) any extension of any such patent and any patent obtained in pursuance of any such application,

| | |
|---|---|
| "**Quarter**" | means the three months ending 31st March, 30th June, 30th September and 31st December. The first Quarter of this Agreement shall commence on the Effective Date and end on the sooner to occur of the 31st March, 30th June, 30th September or 31st December. The last Quarter under this Agreement shall end on the effective date of termination or expiration of this Agreement. ("**Quarterly**" shall be construed accordingly); |
| "**Relevant Rate**" | means the running royalty rate(s) (i.e. running royalty amount per Net Sales Value) in relation to LEP Devices Transferred in each Year, which rate(s) CDT and Licensee shall agree upon in writing before the commencement of Commercial Production. In respect of the royalty rate(s) so agreed, any relationship between running royalty rate and sales level in a Year will be "***".<br><br>Until such time as CDT and Licensee are able to timely agree upon such rate(s) through good faith negotiations,in order that Licensee may proceed to Commercial Production, the relevant rate shall equal "***".<br><br>At such time as CDT and Licensee shall agree upon the running royalty rate to be applied, and such rate is less than "***", then CDT shall calculate the total actual royalty which would have been due in the relevant Year if that lower running royalty rate had been applied to the total Net Sales Value in that Year and the difference between the resulting figure and the actual total royalties paid in that Year will be credited to the Licensee in respect of its then future royalty obligations; |

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

| | |
|---|---|
| “**Relevant Technology**” | means patents or published patent applications which are related to LEP display architecture and/ or manufacture which any member of Licensee’ s Group (of the type described in 6.1) exclusively owns or otherwise jointly owns from time to time and is free to sub-license without having to make any form of payment or other form of compensation to any relevant non-affiliated third party including any extension of any such patent and any patent obtained in pursuance any of such application; |
| “**Subsidiary**” | means any company or legal entity the majority of whose voting rights of each class of shares is now or hereafter owned or controlled, directly or indirectly, by a party hereto or any company a majority of whose voting rights of each class of rights is now or hereafter owned or controlled, directly or indirectly, by any of the aforementioned entities. A company shall be a Subsidiary only so long as such control exists; |
| “**TFT Technology**” | means thin film transistor technology; |
| “**Total Matrix Addressing**” | a form of passive matrix driving where more than one row is addressed at a time, resulting in reduced power consumption and extended panel lifetime (“**TMA**” shall be construed accordingly); |
| “**Total Matrix Addressing Driver Chips**” | means row and column driver chips interfacing with either a separate or integrated processor chip capable of running any non-negative matrix factorisation algorithm (or any other algorithm that gives positive values) such that the said row and column driver chips can drive more than one row and column at a time within one subframe. (“**TMA Driver Chips**” shall be construed accordingly); |

| | |
|---|---|
| "**Transferred**" | means sold, rented, leased or otherwise commercially disposed of for value and "**Transfer**" shall be construed accordingly; |
| "**Valid Claim**" | means a claim, as contained in a Patent, other than a claim which shall have expired, or in respect of which CDT shall have purposely permitted all statutory protection to irretrievably lapse, or in respect of which there is an uncontested final court order declaring such claim invalid. |
| "**Year**" | means the period of Twelve (12) months commencing on the 1st of April and ending on the 31st of March of each calendar year, provided that the first Year of this Agreement shall be for a period commencing as of the Effective Date and ending on 31st of March 2008 ("**Yearly**" shall be construed accordingly); |

1.2 Also in this Agreement, unless the context otherwise requires:

(a) words in the singular include the plural and vice versa and words in one gender include any other gender;

(b) a reference to a statute or statutory provision includes any statute or statutory provision which modifies, consolidates, re-enacts or supersedes it;

(c) a reference to clauses and schedules is to clauses of and schedules to this Agreement and references to sub-clauses and paragraphs are references to sub-clauses and paragraphs of the clause or schedule in which they appear; and

(d) the table of contents and headings are for convenience only and shall not affect the interpretation of this Agreement.

**2. Grant of Licence and Technical Support**

2.1 CDT grants to the Licensee, and the Licensee accepts, a non-exclusive licence under the Patents and any Know-how, upon and subject to the provisions of this Agreement:

(a) to make or manufacture LEP Devices, which devices may implement the TMA architecture and/or use the TMA algorithm (but not to manufacture or have manufactured LEP material or Total Matrix Addressing Driver Chips, or any other semiconductor device).

(b) to make or manufacture Finished Products incorporating LEP Devices manufactured under the licensed rights granted in Clause 2.1(a);

(c) to use, sell and otherwise deal in the LEP Devices and Finished Products made or manufactured in accordance with the licensed rights granted in Clauses 2.1(a) and (b) in any and all countries of the world;

(d) to sublicense (either in whole or in part) its licensed rights to manufacture LEP Devices (as granted in Clause 2.1(a)) to a sub-contractor, for the sole purpose of having LEP Devices manufactured on Licensee' s behalf, provided that, in respect of those sub-contractors which are located outside the geographical region of Japan, Licensee shall:

(i) notify CDT in writing of the identity of the proposed sub-contractor ;

(ii) obtain the prior written consent of CDT (which consent shall not be unreasonably withheld or delayed);

(iii) obtain from any sub-contractor a binding written undertaking in favour of CDT (in such terms as CDT may reasonably approve and which are consistent with the terms of this Agreement), but which shall include provisions obliging the sub contractor:

(A) not to use the Patents and/or any Know-how for any other purpose save the sub-contracted manufacturing for the Licensee;

(B) save as is expressly permitted in Clause 2.1(e) below, not to further sub-contract and/or sublicense the process, or any part of the process, of the manufacture of LEP Devices;

(C) to agree to be bound by and strictly observe the terms of this Agreement as if it were a party to this Agreement;

(D) to keep confidential unpublished Patents, the Know-how and all Confidential Information and/or any material disclosed by the Licensee to the sub-contractor in connection with the manufacture of LEP Devices;

(E) not do any such things and/or take any such actions which may, in CDT' s sole opinion, materially damage or conflict with the interests of CDT or a CDT Group member in the Patents or which may invalidate the Patents; and,

(F) to permit CDT to inspect its records and books of account in terms equivalent to those set out in Clause 9 below;

(iv) procure that the sub-contractor complies in all respects with the provisions of the said undertaking and the provisions of this Agreement; and

(v) be responsible for all acts or omissions of the sub-contractor as if such acts or omissions were its own.

(e) In respect of those sub-contractors through whom Licensee exercises its "have manufactured" rights in accordance with Clause 2.1(d) ("**Primary Sub-contractors**"), those Primary Sub-contractors may further sub-contract and/or sublicense any part of the process of the manufacture of LEP Devices to a third party ("**Secondary Sub-contractors**") provided that the Licensee complies and ensures compliance with each and every provision of Clause 2.1(d) as though such Secondary Sub-contractor were a Primary Sub-contractor.

For the avoidance of doubt, a Secondary Sub-contractor shall have no right or license to further sub-contract and/or sublicense the process, or any part of the process, of the manufacture of LEP Devices.

For the avoidance of doubt, the Licensee hereby agrees and acknowledges that CDT' s refusal to grant consent under Clause

2.1(d)(ii) on the ground that the relevant sub-contractor is based in or planning to manufacture in the geographical region of China shall be and is a reasonable ground for refusal. Notwithstanding the foregoing, in the event that CDT shall have permitted a third party CDT licensee to exercise its licensed rights ("***") to manufacture LEP Devices to a sub-contractor for the purpose of having LEP Devices manufactured on that third party licensee' s behalf in the geographical region of China then, unless such proposed sub-contractor is a known or alleged infringer of the Intellectual Property of either a member of the CDT Group or any third party, or is involved in a dispute with any member of the CDT Group or any licensee of any member of the CDT Group, CDT shall not refuse to grant consent under Clause 2.1(d)(ii) on the grounds that the relevant sub-contractor is based in or planning to manufacture in the geographical region of China.

2.2 CDT shall also procure that, for the term of this Agreement, for so long as any person or entity shall be a CDT Group member such person or entity grants to Licensee a licence in respect of any Patents and Know-how owned by that person or entity during such time as it remains a CDT Group member.

2.3 During the term of this Agreement, and subject to and conditional upon Licensee paying all royalties and Minimum Royalties as and when they fall due and owing, Licensee may exercise the right to include any Subsidiary of Licensee or One (1) Approved Joint Venture of Licensee as a licensee under this Agreement provided that:

(i) such Subsidiary or the Approved Joint Venture, as the case may be, agrees in writing, in the form set forth in Annex 1, to be bound by the obligations of Licensee and to comply with all the terms and conditions of this Agreement as if it were a named party to this Agreement. Licensee shall deliver to CDT a duly executed copy of the Form of Undertaking within Thirty (30) days of the date of execution of such undertaking;

(ii) any breach of the terms and conditions of this Agreement by a Subsidiary or the Approved Joint Venture shall constitute a breach of this Agreement by Licensee;

---

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

(iii) any termination of this Agreement shall be effective in respect of all Subsidiaries and the Approved Joint Venture;

(iv) any license, granted in accordance with the provisions of this Clause 2.3, shall automatically terminate, in respect of a Subsidiary or Approved Joint Venture upon such Subsidiary or Approved Joint Venture ceasing to be a Subsidiary or Approved Joint Venture, as the case may be; and

(v) in the case of the Approved Joint Venture, such Approved Joint Venture shall have neither the right to grant sublicenses to any third party (other than as permitted in accordance with the provisions of Clauses 2.1(d) and (e)), nor the right to include any Subsidiary of such Approved Joint Venture, or any other company or legal entity, as a licensee under this Agreement.

2.4 In the event that a Subsidiary of Licensee or an Approved Joint Venture is in breach of any of the terms of this Agreement, Licensee shall hold harmless and indemnify CDT against all and any loss, liability, costs, damages, expenses (including the reasonable fees of lawyers and other professionals) suffered, as a result of or in connection with such breach.

2.5 Within Ten (10) business days of the Effective Date, CDT shall deliver to the Licensee copies of all existing published applications contained within the Patents as of the Effective Date. In addition, CDT shall deliver to Licensee, within Ten (10) business days of the Effective Date, copies of all material documents describing the Know-how licensed hereunder.

2.6 Within Ninety (90) days of the Effective Date, CDT shall render to Licensee the initial training services as set out below and described in Schedule 2, without charge to Licensee, in order to assist Licensee more effectively to implement the Know-how. The provision of such training services shall be on the following conditions:

(a) Licensee shall pay the salaries and all travel and living expenses of employees receiving such training;

(b) The training shall be provided at CDT premises in England, for such reasonable number of employees of Licensee as Licensee may send to such premises for this purpose;

(c) In addition to the above training services, CDT agrees upon Licensee' s written request, to offer updates to the Know-how and technical guidance to Licensee by dispatching a maximum of two of CDT' s engineers to Licensee' s premises; and

(d) The maximum number of man weeks to be provided by CDT in discharging the initial training services and delivering the technical guidance (whether at CDT' s premises or otherwise) shall not exceed "***" of on-site training at CDT' s premises and an additional "***" of on-site training at Licensee' s premises. If the Licensee requires any additional training services or wishes to reschedule any training days during the initial Ninety (90) day period following the Effective Date, then the parties shall discuss this in good faith.

2.7 CDT shall:

(a) provide commercially reasonable assistance to Licensee in obtaining access to any third party Intellectual Property that, in CDT' s opinion is necessary to practise the Patents and Know-how. CDT shall not be obliged to make any payments to any party in discharge of CDT' s obligations under this Clause 2.7 nor shall it be responsible for any third party' s refusal to license such third party' s Intellectual Property to Licensee;

(b) upon receipt of a reasonable request in writing from Licensee, and from time to time, notify Licensee of any third party Intellectual Property that CDT has become aware of through the ordinary course of its commercial business and which CDT reasonably believes is necessary to practise the Patents and Know-how, but without giving any warranty that such information is accurate or complete, and provided always that nothing in this Clause 2.7(b) shall impose an obligation on CDT to breach any duty of confidentiality which it might be bound by.

During the term of this Agreement CDT shall expend up to a total of Thirty (30) man days in discharging its obligations under this Clause 2.7. At Licensee' s reasonable, written request CDT shall provide further assistance and information in respect

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

of the matters referred to in Clause 2.7(a) and/or 2.7(b), subject to Licensee paying fees to CDT in respect of additional man days expended in complying with such request, calculated at CDT' s then standard hourly consultancy rate.

2.8 Prior to entering into Commercial Production Licensee shall elect whether it wishes to enter into Commercial Production of electronic devices having a viewable diagonal dimension range which is (a) equal to or in excess of "***" inches, or (b) equal to or less than "***" inches, and shall notify CDT of such election ("**Device Election**") in writing. "***"

2.9 The Licensee shall in each Year supply to CDT up to Five (5) suitable demonstrator LEP Devices or Finished Products as CDT may from time to time reasonably request, such demonstrators being typical of standard production by or on behalf of Licensee. CDT hereby undertakes not to analyze, reverse engineer, transfer or sell such LEP Devices or Finished Products but may use them for exhibition and demonstration purposes private or public.

## 3. Licence Upgrade

"***"

3.4 All fees payable under the provisions of this Clause 3 shall be non-refundable.

## 4. Financial Provisions

4.1 In consideration of the rights granted under this Agreement the Licensee will, except as is otherwise expressly provided in this Clause 4, pay to CDT:

(a) the Initial Lump Sum Fee, which Initial Lump Sum Fee shall be non-refundable. Licensee and CDT shall provide each other with all such documentation and reasonable cooperation as is necessary to ensure that the Initial Lump Sum Fee shall reach CDT' s nominated bank account by the 30th of June 2007. In particular, CDT and the Licensee shall use reasonable commercial efforts to provide such documentation as may be

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

required by the Japanese tax authorities to enable this payment to be made without the deduction of withholding tax. Licensee may delay payment to the extent that, through no fault on the part of the Licensee, the necessary approval from the Japanese tax authorities has not been received, but in no event may the Licensee delay such payment for more than Sixty (60) days unless it shall have CDT' s prior written consent to such delay; and

(b) royalties at the Relevant Rates in respect of the Net Sales Value of any LEP Devices produced under the Patents and Transferred by or for the Licensee or any other member of Licensee' s Group.

Notwithstanding the foregoing, Licensee shall not be obliged to pay any royalties as prescribed by this Clause 4.1(b) until the aggregate Net Sales Value of LEP Devices and Finished Devices produced under the Patents and Transferred by or for the Licensee or any other member of Licensee' s Group exceed the sum of "***".

4.2 A Transfer will be deemed to have been made, and payments due hereunder in respect of the relevant sale, rental, lease or disposal shall accrue, when invoiced or shipped to a separate legal entity, whichever occurs first. In respect of a sale, rental, lease or disposal which involves delivery of an LEP Device or Finished Product, as the case may be, to a location or locations outside the geographical region of Japan the date of shipment shall be deemed to be the date as cited on the relevant bill of lading in respect of such LEP Device or Finished Product.

4.3 Upon Commercial Production the royalties payable pursuant to Clause 4.1(b) shall be paid by the later of (i) within Sixty (60) days of the end of each alternate Quarter ("**Payment Quarter**"); or, (ii) within Ten (10) days of the date upon which Licensee receives notification from the Japanese tax authorities that the necessary documents provided by CDT are acceptable to the tax authorities, PROVIDED ALWAYS that (i) payment shall never be delayed for more than Ninety (90) days from the end of the relevant Quarter for which payment is due; and, (ii) in respect of those Quarters during which royalties are calculated but are not payable until after closure of the next Payment Quarter ("**Non-Payment Quarters**"), Licensee shall

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

provide CDT with a good faith, non-binding, estimate of royalties accrued during such Non-Payment Quarter. The Licensee shall submit to CDT a written report in such detail as CDT reasonably requires showing:

(a) the quantity of all LEP Devices Transferred by the Licensee and/or any other member of Licensee' s Group during that Quarter in respect of which royalties are payable to CDT;

(b) the Net Sales Value of such LEP Devices; and

(c) the amount of the royalties payable pursuant to Clause 4.1 in respect thereof.

(d) Licensee' s separate calculation of the Net Sales Value of LEP Devices which have been:

(i) Transferred otherwise than on arm' s length terms; or

(ii) Transferred as incorporated into Finished Products.

4.4 All royalties or other sums payable under this Agreement shall be paid in US Dollars (US$), and where the underlying price in respect of which any royalty is so payable is stated in a currency other than US$, it shall be converted into US Dollars (US$) by reference to the relevant TTM rate of the Bank of Tokyo-Mitsubishi UFJ, Ltd, Tokyo in respect of the currency in question at the end of the Quarter with reference to which the relevant royalties or sums, as the case may be, are calculated.

4.5 All sums payable pursuant to this Agreement are exclusive of value added tax or other applicable taxes or duties for which the Licensee shall be additionally liable and shall be paid in cleared funds to such bank account as CDT may from time to time nominate, without any set off, deduction or withholding except such amount (if any) of tax as the Licensee is required to deduct or withhold by law.

Notwithstanding the above, Licensee shall be entitled to withhold any income tax imposed by the government of Japan from the payments due to CDT under this Agreement. Licensee shall submit to CDT the withholding tax payment certificate as soon as possible after such certificate becomes available to Licensee. To the extent that any actions or documents are necessary or reasonably desirable under the laws of Japan in order for CDT to enjoy a reduced withholding tax rate under the Tax Treaty of the United Kingdom of Great Britain and Japan, Licensee and CDT shall cooperate in good faith in preparing or obtaining such documents.

4.6 Within sixty (60) days of the end of each Year in which a Minimum Royalty is payable, the Licensee shall, in the manner provided in Clauses 4.3, 4.4 and 4.5 pay to CDT the shortfall (if any) between the royalties paid in accordance with Clause 4.1 and the Minimum Royalty payable with respect to the Year in question

4.7 If the Licensee makes any default in payment of the royalties and other sums due hereunder the amount due shall bear interest, both before and after any judgement, at the rate of Three (3) per centum above LIBOR from time to time from that date or the last day of that period (as relevant) until payment of that amount is made to CDT.

4.8 At the commencement of this Agreement the Licensee will give CDT an estimate of the likely royalties payable to CDT with respect to the calendar year in which commencement takes place. Thereafter, in the October preceding each complete calendar year the Licensee will similarly furnish an estimate of likely royalties payable to CDT with respect to the then succeeding calendar year. All such estimates shall be given in good faith but shall be non-binding in effect.

4.9 If at any time both parties reasonably consider that in the light of technological and/or commercial developments or practice the definition of any of "Glass", "Active Matrix Module" or "Passive Matrix Module" should be altered (or even an additional definition be introduced) to reflect such developments or practice the parties shall in good faith renegotiate the same.

4.10 "***"

**5. Intellectual Property Matters**

5.1 In the event that Licensee has reasonable cause to question the validity of any of the Patents it shall promptly notify CDT of such fact, in writing. Such written notice shall (i) include full details of the reason(s) why Licensee questions the validity of the relevant patent; and, (ii) be accompanied by copies of all relevant documentation (including electronic materials) in support of those reasons and/or giving rise to Licensee' s cause

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

to question the validity of that patent. Upon receipt of such notice CDT shall enter into good faith discussions with Licensee with the aim of resolving Licensee’ s concerns as raised therein.

5.2 Save as is expressly permitted in Clause 5.1, in the event that the Licensee commits any act which questions the validity or scope of any of the Patents, or the ownership of CDT thereof, CDT shall notify Licensee that it must immediately desist from all such acts. If Licensee does not cease such act within Thirty (30) days from service of such notice and such failure may jeopardize the rights of CDT in such Patents, CDT shall, without prejudice to any other right or remedy, be entitled to terminate this Agreement forthwith by written notice to the Licensee.

5.3 Upon the Licensee’ s request CDT or, as the case may be, the relevant CDT Affiliate, shall record the license(s) granted pursuant to this Agreement in any territory anywhere in the world where LEP Devices or Finished Products containing them are sold by the Licensee and where relevant law or practice makes the same desirable in order to protect either of the parties or the Patents. Licensee shall meet all costs and expenses incurred by CDT and any CDT Affiliate in discharging their obligations in accordance with this Clause 5.3.

**6. Intellectual Property and Proceedings**

6.1 The Licensee shall ensure that any member of the Licensee’ s Group and any Approved Joint Venture taking the benefit of any rights licensed by CDT under this Agreement shall grant to the CDT Group a royalty free, irrevocable licence of any Relevant Technology for the full natural life of the technology in question, such licence being a licence to use the Relevant Technology solely for the purposes of research and development within the CDT Group.

6.2 CDT may not sub-license the Relevant Technology which is the subject of the licence referred to in Clause 6.1.

6.3 The Licensee shall, at the expense of CDT, take all such steps as CDT may reasonably require to assist CDT and the CDT Group in maintaining the validity and enforceability of the Patents and shall promptly inform CDT:

(a) if any claim is made or threatened against the Licensee by any third party that the exercise by the Licensee of any rights granted under this Agreement by CDT constitutes an infringement of any Intellectual Property or other rights of any other person; or

(b) of any actual, threatened or suspected infringement of any Patent which comes to its notice.

6.4 CDT shall, at its sole discretion, use commercially reasonable efforts to maintain the validity and enforceability of the Patents.

6.5 The Licensee expressly acknowledges and agrees that the grant of the License shall not be taken to imply any warranty on the part of CDT or the CDT Group that any of the Patents can be freely exploited by the Licensee in any jurisdiction throughout the world.

6.6 CDT represents and warrants that: (i) it has the right to grant the License, (ii) there are no suits, claims or proceedings pending in any court or by or before any governmental body or agency with respect to the Patents or Know-how and (iii) there are no liens or security interests in the Patents or Know-how.

6.7 If at any time during the term of this Agreement the Licensee shall become aware of any infringement or threatened infringement of any Patents, the Licensee shall forthwith give notice thereof to CDT. CDT will take commercially reasonable steps to enforce its Patents against infringers, at its expense.

6.8 Upon first filing or priority filing, as the case may be, of any patent application which, if proceeding to grant, would constitute a Patent as defined in this Agreement (the "**Application**"), CDT shall (i) promptly advise the Licensee of the relevant filing number or priority filing number which shall have been issued by the patent registry in respect of such Application in order that the Licensee may track the progress of such Application and (ii) upon the publication thereof or Eighteen (18) months following the filing thereof, whichever is earlier, CDT shall deliver a copy of the Application to the Licensee. In the event that CDT shall decide to abandon any such Application, CDT shall advise the Licensee of its decision to cease prosecution or maintenance of the same and, in such case, (other than in those instances where the decision to cease such prosecution is based, in whole or in part, for the purposes of settling a claim, achieving a cross-licence or in accordance with the terms of a non-assert or confidentiality agreement, or for some other commercially reasonable cause) shall permit the Licensee to take an assignment of such Application. The Licensee shall only be permitted to take such assignment in the event that any licensee of CDT having the right of first option to purchase such Application or Patent resulting therefrom from CDT (such right having been acquired prior to the Effective Date of this Agreement) elects, in writing, not to exercise such option.

6.9 Each party will promptly notify the other party of any claim alleging that the manufacture, use or sale of an LEP Device infringes the patent rights of any third party solely as a result of its use of the technology within the licensed Patents hereunder. CDT shall control the defence of any such claim at its own expense. CDT shall take all commercially reasonable action aimed at preventing such claim from interfering with Licensee' s exploitation of the license rights granted to it hereunder by CDT.

**7. Additional Technology Transfer and Support**

From time to time during the term of this Agreement following the initial Ninety (90) day period referenced in Clause 2.6 above, at the written request of Licensee, CDT shall provide additional Know-how and training services related to the LEP Devices to Licensee in either U.K. or Japan, provided however that the maximum number of man weeks or days to be provided by CDT in discharging such additional training services shall not take more than "***" per annum for the first and second years after the above-referenced Ninety (90) day period and an additional "***" per annum for each of the following "***" thereafter. Such additional training services shall be provided without charge to Licensee, except that all the out-of-pocket expenses, including travel and accommodation expenses, incurred by CDT, and all costs and expenses associated with obtaining all appropriate visas, shall be borne by Licensee. If the Licensee requires any training services in addition to that described above or wishes to reschedule any training days between the years that CDT is providing such training, then the parties shall discuss in good faith the possibility of providing such training services.

**8. Cessation of Business**

8.1 In the event that:

(a) CDT, CDT Inc. or CDT Holdings is insolvent on a cashflow basis (i.e. is unable to pay its debts as they fall due); or

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

(b) any resolution is passed or order made for the winding up or dissolution of CDT, CDT Inc. or CDT Holdings save for a solvent reorganisation or reconstruction or amalgamation, the terms of which were previously approved by CDT, CDT Inc. or CDT Holdings, respectively; or

(c) CDT, CDT Inc. or CDT Holdings reasonably anticipates that an administration petition will be filed or a receiver, manager or administrator will be appointed in relation to CDT, CDT Inc. or CDT Holdings; or

(d) CDT, CDT Inc. or CDT Holdings reasonably anticipates that it will cease, or CDT, CDT Inc. or CDT Holdings threatens to cease, to carry on all or a substantial part of its business, save for a solvent reorganisation or reconstruction or amalgamation, the terms of which were previously approved by CDT, CDT Inc. or CDT Holdings, respectively; or

(e) CDT, CDT Inc. or CDT Holdings proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors;

CDT shall promptly inform the Licensee. In the event that any licensee of CDT having the right of first option to purchase the Patents from CDT (such right having been acquired prior to the Effective Date of this Agreement) elects, in writing, not to exercise such option then the Licensee shall have the option to enter into good faith negotiations for the purchase of the Patents from CDT on fair and reasonable terms and conditions and at market value. In the event that CDT receives such written election it shall promptly notify Licensee to that effect.

8.2 This Agreement and the licenses granted hereunder shall survive any change of control (as defined for the purposes of Section 416, Income and Corporation Taxes Act 1988) of CDT. Any successor or purchaser of CDT shall assume in writing all rights and obligations under this Agreement.

8.3 Subject to Licensee treating such information as confidential information in accordance with the provisions of Clause 12, CDT shall give Licensee Thirty (30) days, or such shorter time period as circumstances dictate, prior written notice of the execution of any conditional assignment of any of its Patents.

8.4

All rights and licenses granted by CDT to the Licensee are, and shall otherwise be deemed to be, for the purpose of Section 365(n) of the United States Bankruptcy Code, as amended (the “Bankruptcy Code”), licenses of rights to “intellectual property” as defined under Section 101(60) of the Bankruptcy Code. The parties hereto agree that the Licensee, as a licensee of such rights under this Agreement, shall retain and may fully exercise all of such rights and elections under the Bankruptcy Code. The parties hereto further agree that, in the event that any proceeding shall be instituted by or against CDT seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or seeking an entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or any substantial part of its property or it shall take any action to authorize any of the foregoing actions, the Licensee shall have the right to assert and enforce its rights under this Agreement.

**9. Accounts**

9.1 The Licensee shall keep, and procure that each other member of Licensee' s Group keeps, true and detailed accounts and records of customer invoices and books of account, in sufficient detail to enable the amount of all royalties and other sums due and payable under this Agreement to be determined, and shall maintain such accounts and records for the period of Six (6) years from the date of creation of the accounts and records.

9.2 The Licensee shall at the reasonable request of CDT (such requests to be submitted no more frequently than once in any Twelve (12) month period) allow an independent royalty auditor to inspect those records and books of account at all reasonable times during normal business hours and, to the extent that they relate to the calculation of those royalties and other sums due and payable under this Agreement, to take copies thereof for the sole purpose of its audit enquiry. In the course of the audit under this Clause 9.2, CDT shall initially be permitted to audit the accounts and records for the period of Two (2) years prior to the date of such applicable audit and shall provide reasonably detailed comments to the Licensee about the appropriateness of the royalty payment before requesting the audit on the additional Four (4) years records. In the event that (i) prior to CDT submitting such request Licensee' s accounting of royalties contained no material error, and (ii) such request relates to records and books of account which were created in excess of Two (2) years prior to the date of submission of that request, CDT shall reimburse Licensee for those costs which Licensee reasonably incurs in retrieving the relevant books and records from storage.

9.3 Inspections under Clause 9.2 shall be carried out at CDT' s expense. However if the audit proves that Licensee' s accounting of royalties resulted in an underpayment by more than Five Percent (5%) of the sums actually due, the cost of such inspection shall be borne by the Licensee. Any underpayment or overpayment proven as a consequence of such audit shall be paid or reimbursed, as the case may be, within Thirty (30) days of the date on which the written results of the relevant audit are supplied to both parties.

9.4 For the avoidance of doubt:

in the case of an overpayment Licensee may elect to receive a credit (equal to the sum overpaid), such credit to be offset against future royalties falling due and owing under this Agreement

9.5 The provisions of this Clause shall remain in full force and effect notwithstanding the termination of this Agreement until the settlement of all possible claims of CDT hereunder.

**10. Duration and Termination**

10.1 The provisions of this Agreement and the licences granted under it, having come into force on the date hereof, shall (subject to the following provisions of this Clause) continue in force until the last of the Patents has ceased to be in force.

10.2 CDT may forthwith terminate this Agreement by written notice to the Licensee if:

(a) any royalties or other sums payable hereunder are in arrears for Sixty (60) days following Licensee' s receipt of CDT' s written demand therefor;

(b) save as is expressly permitted in accordance with the provisions of Clause 14.2, Licensee (or, in relation to that member only, any other member of Licensee' s Group) shall without CDT' s prior written consent sell, assign or part with a proportion, but not all, of its business relating to the exploitation of the CDT Patents;

(c)

control (as defined for the purposes of Section 416, Income and Corporation Taxes Act 1988) of the Licensee (or, in relation to that member only, any other member of Licensee' s Group) shall be transferred to any person or persons other than a financial institution or a company which is listed on the Tokyo Stock Exchange.

10.3 If the Licensee and the other members of the Licensee' s Group are permanently exiting the LEP display business or wish to terminate this Agreement without cause, the Licensee may terminate this Agreement by giving Twelve (12) months' written notice at any time. The Licensee acknowledges that it will be obliged to pay the greater of the actual royalty payment due pursuant to Clause 4 and the Minimum Royalty due in respect of the period covered by such notice.

10.4 Either party may forthwith terminate this Agreement by written notice to the other if:

(a) the other party has committed any breach of any of its obligations under this Agreement (other than a breach of Clause 12) and (in the case of a breach which is capable of remedy) has failed to remedy the same within the period of Sixty (60) days after receipt of written notice giving full particulars of the breach and requiring it to be remedied; or

(b) an encumbrancer takes possession, or a receiver is appointed, of any of the property or assets of the other party; or

(c) the other party becomes subject to an administrative order or makes any voluntary arrangement with its creditors (within the meaning of the Insolvency Act 1986) or anything analogous to the foregoing under the law of any other jurisdiction occurs in relation to that other party; or

(d) the other party goes into liquidation (except for the purposes of amalgamation or reconstruction and in such manner that the company resulting therefrom effectively agrees to be bound by or assume the obligations imposed on that other party under this Agreement);

(e) or any analogous event to the foregoing under the law of any jurisdiction occurs in relation to the other party.

10.5 For the purposes of Clause 10.4(a), a breach shall be considered capable of remedy if the party in breach can comply with the provision in question in all respects other than as to the time of performance (provided that time of performance is not of the essence).

10.6 For the avoidance of doubt the rights to terminate this Agreement given by this Clause 10 shall not prejudice any other right or remedy of either party in respect of the breach concerned (if any) or any other breach.

**11. Effects of Termination**

11.1 On termination of this Agreement for any reason:

(a) the Licensee shall cease to use, either directly or indirectly, the Patents (unless and to the extent expired) and the Know-how;

(b) the Licensee shall consent to the cancellation of any formal licence granted to it, or of any recording of it in any register, in relation to any of the Patents and/or Know-how;

(c) subject as provided in this Clause 11, and except in respect of any accrued rights, neither party shall be under any further obligation to the other; and

(d) the provisions of Clause 12 shall continue in force in accordance with their terms, notwithstanding termination of this Agreement for any reason.

11.2 All obligations of either party under this Agreement which are expressed to or by implication are intended to survive its termination shall continue thereafter.

11.3 If this Agreement is terminated for any reason (other than by reason of Licensee' s termination for cause) any licence granted pursuant to Clause 6.1 shall continue in full force and effect until the end of the natural life of the technology covered by such licence at the relevant time.

11.4 "***"

**12. Confidentiality**

12.1 Subject to Clause 12.2, neither party shall, at any time during the Term or within Ten (10) years from the date of any termination of this Agreement, disclose to any other person, or use for any purpose except as contemplated by this Agreement, either the terms of this Agreement

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

or any information concerning this Agreement or which has been disclosed by either party to the other under or in connection with this Agreement including, for the avoidance of doubt, Know-how, and each party shall use its best endeavours to keep that information confidential (whether it is marked as such or not).

12.2 Any information which is disclosed by either party to the other under this Agreement may be:

(a) disclosed by either party to:

(i) any governmental or other authority or regulatory body; or

(ii) any other person, to the extent required by law; or

(iii) the Commission under the Securities and Exchange Act of 1934 (as amended, and the rules and regulations of the Commission promulgated thereunder), where such disclosures are reasonably considered advisable by law.

(iv) independent legal counsel of the other party for the purpose set forth in Clause 4.11 above or for a similar purpose as set forth in "***"; or

(b) disclosed by either party to:

(i) any actual or potential legitimate sub-licensee, customer or supplier of that party, or any person carrying out research or development on its behalf; or

(ii) any employee of that party or any other member of the CDT Group or Licensee' s Group (as appropriate) or of any of the persons mentioned in sub-Clause (b)(i) above,

to the extent strictly necessary for the purposes of (as may be relevant) the manufacture, sale of, or any other dealings in, the LEP Devices or Finished Products, or to any potential permitted transferee of this Agreement to the extent necessary for the purpose of enabling such person or entity to make a reasonably well informed decision whether to accept such transfer, subject in each case to the party in question first obtaining and providing the other party with a copy of a written undertaking, in favour of the non-disclosing party, from the person in question, as nearly as practicable in the terms of this Clause, to keep the information confidential and to use it only for the purposes for which the disclosure is made; or

---

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

(c) used by either party for any purpose, or disclosed by either party to any other person, to the extent only that any part of the information in question is at the date of this Agreement or at any time after that date through no direct or indirect fault of that party becomes public knowledge, provided that in doing so that party does not disclose any part of the information in question which is not public knowledge.

(d) disclosed (i) by CDT or a CDT Group member to the employees, agents, attorneys, or consultants of CDT or a CDT Group member, or (ii) by Licensee or Licensee' s Group to the employees, agents, attorneys, or consultants of Licensee or Licensee' s Group, in either case for the purpose of exercising, performing or enforcing a party' s rights and obligations under this Agreement or for the purpose of understanding actual or potential rights and obligations under this Agreement or as part of the due diligence review of either CDT, a member of the CDT Group, the Licensee or the Licensee' s Group.

**13. Force Majeure**

13.1 Neither party shall be deemed to be in breach of this Agreement, or otherwise be liable to the other, by reason of any delay in performance or non-performance of any of its obligations under this Agreement to the extent that such delay or non-performance is due to any cause beyond its reasonable control including but not limited to any strike, lockout or other form of industrial action (an "**Event of Force Majeure**").

13.2 The party affected by the Event of Force Majeure shall immediately give the other party written notification of the nature and extent of the Event of Force Majeure and the parties shall enter into bona fide discussions with a view to alleviating its effects or to agreeing upon such alternative arrangements as may be fair and reasonable.

**14. Nature of Agreement**

14.1 CDT shall be entitled to perform any of the obligations undertaken by it and to exercise any rights granted to it under this Agreement through any member of the CDT Group, from time to time, provided that any act or omission of any such member of the CDT Group shall, for all the purposes of this Agreement, be deemed to be the act or omission of CDT.

14.2 Neither this Agreement nor any of the rights and powers created herein may be assigned, in whole or in part, by either party hereto without the prior written consent of the other party, except that either CDT or Licensee, as the case may be, may transfer this Agreement (i) by way of assignment or novation to any member of the CDT Group or any Affiliate of Licensee, as the case may be, or (ii) by way of assignment or novation to any purchaser or other successor in title (whether by way of a flotation, initial public offering, reorganisation, amalgamation or otherwise) of all or substantially all of its relevant business. Notwithstanding the foregoing, in the event of an assignment or novation of this Agreement to any purchaser or other successor in title of all or substantially all of Licensee' s relevant business, no such assignment or novation shall take place:

(a) where the purported assignee or novatee, in CDT' s reasonable opinion, is a direct competitor of, or is an entity which is hostile to, CDT or a CDT Group member;

(b) unless Licensee or the purported assignee or novatee shall pay to CDT the non-refundable assignment fee of "***" and,

(c) in the event of a novation or assignment to a purchaser or successor in title other than a member of Licensee' s Group, all rights and licenses of Licensee' s Group under this Agreement shall terminate immediately upon such assignment or novation being effected.

14.3 Subject to Clauses 2.2, 2.3, 14.1 and 14.2 this Agreement is personal to the Licensee who shall not assign, mortgage, charge (otherwise than by floating charge) or (except as expressly provided herein) sub-license any of its rights hereunder or sub-contract or otherwise delegate any of its obligations hereunder, except with the written consent of the other party (which shall not be unreasonably withheld or delayed).

14.4 Nothing in this Agreement shall create, or be deemed to create, a partnership, or the relationship of principal and agent, between the parties.

---

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

14.5 Each party to this Agreement respectively warrants and represents to each other that:

(a) it has all requisite power, authority and legal right to enter into, consummate and perform this Agreement and the transactions contemplated hereby. All transactions contemplated by this Agreement and any instrument or agreement referred to herein to which it is or shall be a party have been duly authorized by all corporate and other required actions, and this Agreement constitutes and such instruments and agreements when duly executed and delivered will constitute the legal, valid and binding obligations of the warranting party, enforceable in accordance with their respective terms; and,

(b) the execution, delivery or performance by the warranting party of this Agreement or any instrument or agreement referred to herein to which it is or shall be a party, does not violate or will not violate or conflict with any provisions of its organizational documents, by-laws or of any statute, governmental regulation, order, judgment, decree, agreement, indenture or any other instrument applicable to it.

14.6 Save in respect of any breach of the provisions of Clauses 2.1 through 2.4 and Clause 12, neither party shall be liable to the other for any indirect or consequential losses, damages, costs or expenses incurred by reason of any duty at common law or under any statute, or any representation (other than fraudulent misrepresentation), or any term hereof, whether express or implied by statute, collaterally or otherwise, nor for any loss of profit, business, goodwill, anticipated savings or contracts, however the same may arise and whether occasioned by the negligence, breach of contract or otherwise of a party hereto, its servants or agents or otherwise, which arises out of or in connection with this Agreement or any rights or obligations arising hereunder.

14.7 The Licensee hereby agrees to indemnify and keep indemnified CDT and the CDT Group, from time to time, their servants and agents from and against all actions, claims, costs and demands which may be brought or made against CDT and/or the CDT Group, from time to time, and all losses, damages, costs and expenses of any kind suffered by CDT and/or the CDT Group, from time to time, of whatever nature and howsoever arising whether in negligence or otherwise in connection with any LEP Device or Finished Product manufactured by or on behalf of the Licensee or any member of Licensee' s Group.

14.8 To the extent permitted by law, the maximum aggregate liability of CDT and the CDT Group, from time to time, under or in connection with this Agreement, whether in contract, tort, negligence, breach of statutory duty or otherwise shall be limited to:

(a) in respect of those claims which shall have arisen on or before the Fourth (4th) anniversary of the Effective Date, the sum of "***"; and,

(b) in respect of claims which shall have arisen after the Fourth (4th) anniversary of the Effective Date, the greater of "***" and "***".

14.9 Each party acknowledges that it has entered into this Agreement in reliance only upon the express representations, warranties and promises specifically contained or incorporated in this Agreement and, save as expressly set out in this Agreement, neither party shall have any liability to the other in respect of any other representation, warranty or promise made prior to the date of this Agreement unless it was made fraudulently.

**15. Governing Law and Jurisdiction**

15.1 This Agreement shall be governed by and construed in accordance with English law. The parties agree that in respect of matters arising out of or in connection with this Agreement:

(i) the High Court of Justice, London, England shall have exclusive jurisdiction for the purposes of hearing and determining any legal proceedings brought by Licensee or any member of the Licensee' s Group as against CDT or a CDT Group member; and,

(ii) the courts of Japan shall have exclusive jurisdiction for the purposes of hearing and determining any legal proceedings brought by CDT or a CDT Group member as against the Licensee or any member of the Licensee' s Group.

15.2 Any disputes relating to Licensee' s and CDT' s agreement as to the appointment of a third party expert for the purposes of determining the Relevant Rate or in connection with the appointment of Independent Counsel in accordance with the

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

provisions of Clause 4.11 shall be referred to and determined by arbitration in Singapore in accordance with and subject to the provisions of the Arbitration Rules of the Singapore International Arbitration Centre. The language of the arbitration shall be English. The decision of the arbitrator shall be final and binding upon the parties.

15.3 Unless expressly provided in this Agreement, no term of this Agreement is enforceable pursuant to the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to it.

**16. Notices**

16.1 Any notice to a party under this Agreement shall be in writing signed by or on behalf of the party giving it and shall, unless delivered to a party personally, be left at, or sent by prepaid first class post, prepaid recorded delivery, or facsimile to the address of the party as set out in the preamble to this Agreement or as otherwise notified in writing from time to time in accordance with this Clause 15.1.

16.2 Except as referred to in sub-Clause 16.3, a notice shall be deemed to have been served:

(a) at the time of delivery if delivered personally;

(b) Ninety Six (96) hours after posting; or

(c) Two (2) hours after transmission if served by facsimile on a business day prior to 15:00 hours (local time) or in any other case at 10:00 hours (local time) on the business day after the date of despatch.

If the deemed time of service is not during normal business hours in the country of receipt, the notice shall be deemed served at or, in the case of faxes, 2 hours after the opening of business on the next business day of that country.

16.3 The deemed service provisions set out in sub-Clause 16.2 do not apply to:

(a) a notice served by post, if it is returned to the sender as undelivered or if there is a national or local suspension, curtailment or disruption of postal services which affects the collection of the notice or is such that the notice cannot reasonably be expected to be delivered within Ninety Six (96) hours after posting; and

(b) a notice served by facsimile, if, before the time at which the notice would otherwise be deemed to have been served, the receiving party informs the sending party that the notice has been received in a form which is unclear in any material respect, and, if it informs the sending party by telephone, it also despatches a confirmatory facsimile as to this fact within Two (2) hours of receipt (as contemplated by Clause 16.2(c)).

16.4 In proving service it will be sufficient to prove:

(a) in the case of personal service, that it was handed to the party or delivered to or left in an appropriate place for receipt of letters at its address;

(b) in the case of a letter sent by post, that the letter was properly addressed, stamped and posted; or

(c) in the case of facsimile, that it was properly addressed and despatched to the number of the party.

16.5 A party shall not attempt to prevent or delay the service on it of a notice connected with this Agreement.

**17. Further assurance**

After this Agreement has been signed by both parties, each party shall execute such documents and take such steps as the other party may reasonably require to fulfil the provisions of and to give to each party the full benefit of this Agreement.

**18. Waiver**

18.1 The rights, powers and remedies conferred on any party by this Agreement and remedies available to any party are cumulative and are additional to any right, power or remedy which it may have under general law, this Agreement or otherwise.

18.2 Any party may, in whole or in part, release, compound, compromise, waive or postpone, in its absolute discretion, any liability owed to it or right granted to it in this Agreement by any other party or parties without in any way prejudicing or affecting its rights in respect of that or any other liability or right not so released, compounded, compromised, waived or postponed.

18.3 No single or partial exercise, or failure or delay in exercising any right, power or remedy by any party shall constitute a waiver by that party of, or impair or preclude any further exercise of, that or any right, power or remedy arising under this Agreement or otherwise.

## 19. Exclusion of warranties

19.1 CDT does not give and nothing contained in this Agreement shall be construed as:

(a) a warranty or representation by it as to the validity or scope of any patents or patent applications licensed hereunder;

(b) a warranty or representation that any patent applications licensed hereunder will proceed to grant;

(c) a warranty or representation by CDT as to the volume or quality of LEP Devices which may be manufactured through the use of the Patents;

(d) a warranty or representation that LEP Devices can be freely exploited by the Licensee or any other member of Licensee' s Group and that any manufacture, sale, use, marketing or other disposition of LEP Devices as contemplated hereunder will be free from infringement of any Intellectual Property of third parties;

(e) conferring by implication, estoppel or otherwise, upon the Licensee or any other member of the Licensee' s Group, any licence or other right under any patent rights or other Intellectual Property except for the licenses and rights expressly granted hereunder; or

(f) a representation or warranty as to the efficacy or usefulness of the Patents or Know-how or that they will produce LEP Devices of satisfactory quality or fit for the purpose for which the Licensee or any other member of the Licensee' s Group intended.

## 20. Severance

To the extent that any provision of this Agreement is found by any court or competent authority to be invalid, unlawful or unenforceable in any jurisdiction, that provision shall be deemed not to be a part of this Agreement, it shall not affect the enforceability of the remainder of this Agreement nor shall it affect the validity, lawfulness or enforceability of that provision in any other jurisdiction.

**21. Announcements**

The parties shall make a joint announcement within Thirty (30) days of the signature of this Agreement. The text of such announcement shall be agreed by the parties and it shall not be made public until such agreement is reached. Notwithstanding the foregoing, this Clause 21 shall not apply to the extent that an announcement is considered advisable in connection with reports filed with government authorities in Japan and the US Commission under the Securities and Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder. Where such announcement is reasonably required, the parties will request confidential treatment to the extent permissable In addition, the parties will use their reasonable endeavours to promote LEP technology for the duration of this Agreement.

**22. Non-Solicitation**

Neither the Licensee nor any member of Licensee' s Group or, from time to time, any of its direct or indirect Holding Companies or any of their Subsidiaries on one hand, nor CDT or any member of the CDT Group, on the other hand, may at any time during this Agreement or for a period of Twelve (12) months from the expiry or termination of this Agreement engage, employ or utilise in any capacity, the services of or introduce to another employer either temporarily or permanently, directly or indirectly any person employed by such other party or its group. If either party breaches this Clause, it shall pay to the other party a sum equivalent to the five times the new annual starting salary and benefits of the person concerned.

**23. Entire Agreement**

This Agreement sets out the entire agreement and understanding between the parties in respect of the subject matter of this Agreement and it may not be modified except by an instrument in writing signed by the duly authorised representatives of the parties.

**Schedule 1**

The Patents

"***"

---

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

**Schedule 2**

Schedule of Initial Technical Support

“***”

---

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

**Appendix 1**

Form of Undertaking

“***”

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

**Signed** by

for and on behalf of

/s/ David Fyfe

**Cambridge Display Technology**

**Limited**

in the presence of:

*Signature of witness:*

/s/ Frank T Nickell

*Name:*

Frank T Nickell

*Address:*

Kelso & Company, 320 Park Aveniue, NY 10022

*Occupation:*

Banker

**Signed** by

for and on behalf of

/s/ K. Nakae

**Sumitomo Chemical Co., Ltd.**

in the presence of:

*Signature of witness:*

/s/ Y. Wakemi

*Name:*

Y. Wakemi

*Address:*

29-1, Shinkawa 2-Chome, Cho-ku, Tokyo 104-8260 Japan

*Occupation:*

## CERTIFICATION

I, David Fyfe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cambridge, Display Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’ s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) evaluated the effectiveness of the registrant’ s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) disclosed in this report any change in the registrant’ s internal control over financial reporting that occurred during the registrant’ s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’ s internal control over financial reporting.
5. The registrant’ s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’ s auditors and the audit committee of registrant’ s board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’ s ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’ s internal control over financial reporting.

Date: August 14, 2007

/s/ DAVID FYFE

DAVID FYFE
Chief Executive Officer

**Exhibit 31.2**

# CERTIFICATION

I, Michael Black, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cambridge Display Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or reasonably likely to materially affect, the registrant' s internal control over financial reporting.
5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 14, 2007

/s/ MICHAEL BLACK

MICHAEL BLACK
Chief Financial Officer

Exhibit 32.1

**STATEMENT PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

With reference to the Quarterly Report of Cambridge Display Technology, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Fyfe, Chief Executive Officer of the Company, certify, for the purposes of 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ DAVID FYFE

DAVID FYFE
Chief Executive Officer
August 14, 2007

**Exhibit 32.2**

**STATEMENT PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

With reference to the Quarterly Report of Cambridge Display Technology, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Black, Vice-President Finance of the Company, certify, for the purposes of 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ MICHAEL BLACK

MICHAEL BLACK
Chief Financial Officer
August 14, 2007