

Cambridge Display Technology, Inc.

Form 10-Q

August 14, 2007

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
(State or other jurisdiction of

incorporation or organization)

c/o Cambridge Display Technology Limited

13-4085264
(IRS Employer

Identification No.)

2020 Cambourne Business Park

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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.

Table of Contents

CAMBRIDGE DISPLAY TECHNOLOGY, INC.

INDEX

	Page
<u>PART I: FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	1
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Operations</u>	2
<u>Consolidated Statements of Cash Flows</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 4. <u>Controls and Procedures</u>	18
<u>PART II: OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	19
Item 1A. <u>Risk Factors</u>	20
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	34
Item 6. <u>Exhibits</u>	34
<u>Signatures</u>	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;

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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.

Table of Contents

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)

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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		