EMAGIN CORP
Form 10-Q/A
February 07, 2003

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2002

[ ] Transition report pursuant section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____________ to ______________

eMAGIN CORPORATION
(Exact name of small business issuer as specified in its charter)

Commission file number: 000-24757

DELAWARE	56-1764501
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2070 Route 52
Hopewell Junction, New York 12533
(Address of principal executive offices)

(845) 892-1900
(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:
Not applicable

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of February 3, 2002 the Registrant had 30,979,939 shares of Common Stock outstanding.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (check one): Yes [ ] No [X]

PART I. FINANCIAL INFORMATION

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SIGNATURE

Exhibit 99.1 Certification of CEO

eMAGIN CORPORATION
(a development stage corporation)
CONSOLIDATED BALANCE SHEETS

ASSETS	Sept 30, 2002
	Restated - Note 2

CURRENT ASSETS:	
Cash and cash equivalents	93,259
Contract receivables	160,636
Unbilled costs and estimated profits on contracts in progress	391,790
Inventory	160,032
Prepaid expenses and other current assets	330,573
Total current assets	1,136,290
Equipment and leasehold improvements, net of accumulated depreciation of $1,506,652 and $1,122,989, respectively	782,409
Goodwill, net of accumulated amortization of $54,602,258 and $54,602,258, respectively	-
Purchased intangibles, net of accumulated amortization of $17,357,110 and $16,362,762, respectively	662,891
Other long-term assets	63,046
Total assets	2,644,636
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of long-term debt	41,163
Other short term debt	5,644,177
Accounts payable	6,251,413
Accrued expenses	1,048,452
Accrued payroll and benefits	1,016,635
Deferred Revenue	23,571
Advance payments on contracts to be completed	0
Other current liabilities	13,446
Total current liabilities	14,038,857
LONG-TERM DEBT	253,022
SHAREHOLDERS' EQUITY:	
Common Stock, par value $0.001 per share	
Shares authorized - 100,000,000	
Shares issued and outstanding - 30,294,980 and 25,171,183	30,294
Additional paid-in capital	119,898,818
Deferred compensation	(1,646,608)
Deficit accumulated during the development stage	(129,929,747)
Total shareholders' equity	(11,647,243)
Total liabilities and shareholders' equity	2,644,636

See selected notes to financial statements

eMAGIN CORPORATION
(a development stage corporation)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three-Months ended September 30, 2002
	Restated - Note 2
CONTRACT REVENUE:	
Contract revenue	$176
Product sales	497,675
Total revenue	$497,851
COSTS AND EXPENSES:	
Research and development, net of funding under cost sharing arrangements of $346,449and $846,734 respectively	$947,653
Amortization and write-down of purchased intangibles	331,449
Selling, general and administrative	1,565,377
Total costs and expenses, net	$2,844,479
OTHER (EXPENSE)/ INCOME	(408,010)
Loss before provision for income taxes	(2,754,638)
PROVISION FOR INCOME TAXES	0
Net loss	($2,754,638)
Basic and diluted net loss per common share	($.09)
Basic and diluted weighted average common shares outstanding	30,294,980

See selected notes to financial statements.

eMagin Corporation
(a development Stage Corporation)
CONSOLIDATED STATEMENT OF OPERATIONS

	Nine-Months Ended September 30, 2002 Restated - Note 2	Nine-Months Ended September 30, 20
CONTRACT REVENUE		
Contract revenue	$14,284	$4,332
Product revenue	909,721	490
Total Revenue	$924,005	$4,822
COST AND EXPENSES		
Research and Development, net of funding under cost of sharing arrangements of $356,798, $1,205,107 and $3,258,210 respectively	$6,435,467	$9,901
Amortization and write-down of goodwill and purchased intangibles	994,347	49,701
Acquired in-process research and development		
Selling, general, and administrative expense	4,916,824	7,922
Total costs and expenses	$12,346,638	$67,524
OTHER (EXPENSE)/INCOME	(1,822,562)	(216,
Loss before provision for income taxes	($13,245,195)	($20,541,
PROVISION FOR INCOME TAXES	0	
Net Loss	($13,245,195)	($62,918,
Basic and diluted net loss per common share	($.44)	($2
Basic and diluted weighted average common shares Outstanding	30,294,980	25,076,

See selected notes to financial statements.

eMAGIN CORPORATION
(a development stage corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months ended Sept 30, 2002	Nin... Sept...
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($13,245,195)	($6
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	1,378,010	5
Write-down of goodwill and purchased intangibles		
Loss on disposal of assets	437	
Non-cash charge for stock based compensation	1,265,702	
Non-cash interest related charges	1,946,148	
Non-cash related to issuance of warrants		
Non-cash charge for services received	-	
Non-cash charge due to beneficial conversion	-	
Acquired in-process research and development	-	
Changes in operationg assets and liabilities, net of acquisition:		
Contract receivables	(324,385)	
Interest receivable	(106)	
Unbilled costs and estimated profits on contracts in progress	98,517	
Costs and estimated profits in excess of billings on contracts		
Inventory	69,312	
Prepaid expenses and other current assets	(57,665)	
Other long-term assets	(21,691)	
Advanced payment on contracts to be completed	-	
Deferred Revenue	23,571	
Accounts payable, accrued expenses and accrued payroll	3,411,732	
Other current liabilities		
Net cash used in operating activities	(5,455,613)	(
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(84,745)	
Net proceeds from acquisition	-	
Net cash used in investing activities	(84,745)	

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock, net of issuance costs	3,475,621	
Proceeds from exercise of stock options and warrants	885	
Proceeds from long and short term debt	1,443,478	
Payments of long term debt and capital leases	(24,709)	
Net cash provided by financing activities	4,895,275	
NET INCREASE IN CASH AND CASH EQUIVALENT'S	(645,083)	(
CASH AND CASH EQUIVALENTS, beginning of period	738,342	
CASH AND CASH EQUIVALENTS, end of period	93,259	

See selected notes to financial statements.

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eMAGIN CORPORATION
Selected Notes to Consolidated Financial Statements

Note 1 - BASIS OF PRESENTATION

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Certain information or footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented. The results of operations for the period ended September 30, 2002 are not necessarily indicative of the results to be expected for the full year.

Note 2 - RESTATEMENT

As a result of a subsequent review of the September 30, 2002 quarterly financial statements by our independent auditor we noted the following material restatements occurred:

Financial Statement Line	Previously Reported	As Restated	Comment
Unbilled Costs	$101,320	$391,720	Reclassification of amounts billed
Inventory	65,600	160,032	To correct inventory valuation
			To recognize depreciation on comple

Equipment and Leasehold Improvements	890,069	782,409	projects previously classified as b Construction in Progress
Purchased Intangibles	994,340	662,891	Correct amortization on intellectua
Accounts Payable and Accrued Expense	6,667,999	7,299,865	Accrued amounts to be in agreement balances.
Accrued Payroll	884,828	1,016,635	To true up benefits to adjust for s layoffs
Current portion of LTD	673,902	41,163	Correct original issue discount amo
Other Short-term Debt	2,825,000	5,644,177	Reclass of long-term debt to short- due to default
Long-term Debt	2,342,483	253,022	Reclass of long-term debt to short- due to default
Additional paid in capital	120,538,131	119,898,818	To correct deferred compensation am for correction of vesting of option recording of warrants issued in con with debt financing
Deferred Compensation	(841,513)	(1,646,608)	Correction of vesting of options an of forfeited options
Inception to Date Research and Development	27,435,527	28,794,576	Accrued amounts to be in agreement balances and proper classification selling, general and administrative
Inception to Date Selling, General & Administrative	25,618,706	22,863,875	Accrued amounts to be in agreement balances, correction of vesting of for deferred compensation amortizat proper classification of expenses t and development.
Inception to Date Other (expense) income	(2,091,944)	(2,820,890)	Amortization of Original Issue Disc long-term debt.

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The following table illustrates the above material restatements impact on the three and nine months ended September 30, 2002 respectively:

Financial Statement Line	Three months ended September 30, 2002 Previously Reported	Three Months ended September 30, 2002 As Restated	Nine months ended September 30, 2002 Previously Reported	Nine months ende September 30, 20 As Restated
Research and				

Development	$1,362,118	$947,653	$5,076,418	$6,435,
Amortization of purchased intangibles		331,449	662,898	994,
Selling General & Administrative	2,598,821	1,565,376	$7,671,655	4,916,
Other (expense) income	(578,577)	(408,010)	(1,672,193)	(1,822,
Net Loss	$(4,048,765)	$(2,754,638)	$(14,130,835)	$(13,245,
Net Loss per common share	$(0.13)	$(0.09)	$(0.49)	$(0

The company's management and its independent accountants recommended the above adjustments after analysis of the accounts. Management believes it has taken the necessary steps to analyze its accounts on a timely basis and in a manner as recommended by our new independent accountants in the future. In addition the footnotes to the September 30, 2002 financial statements and the Management's Discussion and Analysis have been updated to conform to the results presented in the amended September 30, 2002 quarterly financial statements.
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Note 3 - NATURE OF BUSINESS

Fashion Dynamics Corporation (FDC) was organized January 23, 1996, under the laws of the State of Nevada. FDC had no active business operations other than to acquire an interest in a business. On March 16, 2000, FDC acquired FED Corporation ("FED") (the Merger). The merged company changed its name to eMagin Corporation (the "Company" or eMagin) (Note 3). eMagin is a developer and manufacturer of optical systems and microdisplays for use in the electronics industry. eMagin's wholly-owned subsidiary, Virtual Vision Inc., develops and markets microdisplay systems and optics technology for commercial, industrial and military applications. Following the Merger, the business conducted by the Company is the business conducted by FED prior to the Merger.

The Company continues to be a development stage company, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises", as it continues to devote substantially all of its efforts to establishing a new business, and it has not yet commenced its planned principal operations. Revenues earned by the Company to date are primarily related to research and development type contracts and are not related to the Company's planned principal operations of commercialization of products using organic light emitting diode (OLED) technology.

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Through September 30, 2002, the company had incurred development stage losses totaling approximately $130 million. Prior to the acquisition of FED by FDC, FED incurred developmental stage losses totaling approximately $52.5 million. At September 30, 2002, the Company had approximately $0.3 million of cash, cash

equivalents and contract receivables to fund short-term working capital requirements and approximately $11.5 million of working capital deficiency. The Company's ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near future to continue: (1) its research and development efforts, (2) hiring and retaining key employees, (3) satisfaction of its commitments and (4) marketing and production of its products.

The Company believes that it has a reasonable probability of securing financing and that the proceeds from such financings, and its remaining cash resources at September 30, 2002 and subsequent cash flow from business operations, will be sufficient to fund the Company's operations into the first quarter of 2003. However, there can be no assurance that sufficient capital will be available, when required, to permit the Company to realize its plan, or even if such capital is available, that it will be at terms favorable to the Company. Additionally, there can be no assurance that the Company's efforts to produce a commercially viable product will be successful, or that the Company will generate sufficient revenues to provide positive cash flows from operations. These and other factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result should the Company be unable to continue in existence. (Also see Liquidity and Capital Resources section on Item 7 Management's Discussion and Analysis of Financial Conditions and Results of Operation and Risks Related to Our Financial Results section of Item 7A Qualitative and Quantitive Disclosures About Market Risk.)

Note 4 - FED ACQUISITION

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock and approximately 3.9 million options and warrants to purchase common stock to FED shareholders. The total preliminary purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, $0.3 million of acquisition costs and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Under the purchase method of accounting, the assets and liabilities were recorded based upon their fair values at the date of acquisition.

Note 5 - REVENUE AND COST RECOGNITION

The Company has historically earned revenues from certain of its research and development activities under both firm fixed-price contracts and cost-type contracts, including some cost-plus-fee contract. Revenues relating to firm fixed-price contracts are generally recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Revenues on cost-plus-fee contracts include costs incurred plus a portion of estimated fees or profits based on the relationship of costs incurred to total estimated costs. Contract costs include all direct material and labor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party. Amounts can be billed on a bi-monthly basis. Billing is based on subjective cost investment factors.

In addition, the Company has product sales which are recognized when merchandise is shipped and such revenue is recorded net of estimated sales returns, discounts and allowances.

Note 6 - RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred. To date, activities of the Company (and its predecessor) have included the performance of research and development under cooperative agreements with United States Government agencies. Funding from such research and development contracts is recognized as a reduction in operating expenses during the period in which the services are performed and related direct expenses are incurred.

Note 7 - NET LOSS PER COMMON SHARE

In accordance with SFAS No. 128, net loss per common share amounts ("basic EPS") were computed by dividing net loss by the weighted average number of common shares outstanding and excluding any potential dilution. Net loss per common share assuming dilution ("diluted EPS") was computed by reflecting potential dilution from the exercise of stock options and warrants. Common equivalent shares totaling 11,732,954 have been excluded from the computation of diluted EPS for the three and nine months ended September 30, 2002.

Note 8 - DEBT

On January 14, 2002, the Company entered into a $1.0 million bridge loan arrangement with a private investor (the "Investor") in connection with a secured note purchase agreement executed by the Company on November 27, 2001. This transaction increased the total amount of the secured convertible loan outstanding under this arrangement to $1,625,000, including amounts previously made available to the Company in connection with the November 27, 2001 secured note arrangement, net of repayments of $250,000 to certain investors who elected not to reinvest. The secured convertible notes accrue interest at a rate of 9.00% per annum and mature on August 30, 2002. Terms of the notes also include a fixed conversion rate of $0.5264 per share. The Company also granted warrants purchasing 921,161 shares of common stock with an exercise price of $0.5468 per share to the Investor. Such warrants are exercisable through January 2005. Certain investors of the November 27, 2001 financing who elected to remain in the new bridge loan arrangement received reset provisions of the previous conversion rate and warrant exercise prices to be equivalent to the terms granted to the new Investor. The loans have been extended through November 30, 2002.

The total of the intrinsic value of the warrants issued to the new Investor and the incremental intrinsic value of the repriced warrants of certain existing investors of approximately $480,000 has been recorded as original issue discount, resulting in a reduction in the carrying value of this debt. The original issue discount will be amortized into interest expense over the period of the debt. In the event the debt is converted prior to maturity, the remaining discount will be amortized into interest expense at the conversion date. For the three and nine months ended September 30, 2002, approximately $143,000 and $480,000, respectively has been amortized and is included in non-cash interest expense in the accompanying unaudited consolidated statements of operations.

In addition, based on the terms of the bridge loan arrangement, the conversion terms of the debt provide for a beneficial conversion feature. The total value of the beneficial feature of the new debt and the incremental value of the reset conversion feature of the existing debt of approximately $780,000 was recorded at January 14, 2002 as non-cash interest expense in the accompanying unaudited consolidated statements of operations.

On June 20, 2002, the Company entered into a $0.2 million Secured Note Purchase Agreement with an Investor. The secured note accrues interest at 11% per annum and matures on August 30, 2002. The Company also granted warrants, exercisable for a period of three years, to purchase 300,000 shares of common stock with an exercise price of $0.4419 per share to the investor. The fair value warrants issued to this Investor approximated $84,000 has been recorded as original issue discount, resulting in a reduction in the carrying value of this debt. The original issue discount will be amortized into interest expense over the period of the debt. For the three and nine months ended September 30, 2002, approximately $143,000 and $480,000, respectively, has been amortized, and is included in non-cash interest expense in the accompanying unaudited consolidated statements of operations

On August 21, 2002, the Company issued two Series B Convertible Debentures in the amount of $121,739 each. The debentures bear interest at the rate of 8% per annum and are due August 21, 2004. The Debenture also includes a fixed conversion rate of $0.18 per share. Based on the terms of the loan arrangement, the conversion terms of the debt provide for a beneficial conversion feature. Due to the fact that the note holder had the option to convert the note immediately upon execution of the agreement, the value of the beneficial conversion feature of approximately $108,000 was recognized immediately as interest expense and is included in "Other expense, net" in the accompanying statement of operations for the nine months ended September 30, 2002.

As of September 30, 2002, the Company was not in compliance with a certain debt covenant on its $3,000,000 debt payable to SK Corporation, as defined, and consequently defaulted on the note, causing the maturity date of the notes to accelerate and become immediately due (the "default"). Accordingly, at September 30, 2002, the original liability of the notes of $3,000,000, plus accrued but unpaid interest, is included in current liabilities in the accompanying consolidated balance sheet.

The company has negotiations in process with various creditors. We have been mostly successful during this quarter in obtaining extensions and the management continues to work toward mutually beneficial resolutions with all of its creditors. The company has not made any payments on its debt which has become due, the company is negotiating with its various creditors to work toward mutually beneficial resolutions. There is no guarantee that eMagin will continue to obtain forbearance or obtain acceptable resolutions to issues with its creditors.

Note 9 - STOCKHOLDERS' EQUITY

The authorized common stock of the Company consists of 100,000,000 shares with a par value of $0.001 per share.

Prior to the Merger on March 16, 2000, net proceeds of approximately $23.3 million was raised through the private placement issuance of approximately 3.5 million shares of common stock. Additionally, approximately 9.4 million shares of common stock held by FDC's principal shareholders were cancelled at the time of the Merger.

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock to FED shareholders, and issued approximately 3.9 million options

and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, based on the difference between the fair value and the exercise price of said equity instruments and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the fair value of assets acquired and liabilities assumed.

In January 2002, the Company negotiated settlement of amounts due to a related party for services previously rendered via issuance of 192,493 shares of common stock. As such, the Company recorded the fair value of the shares of approximately $135,000 in selling, general and administrative expenses in the accompanying unaudited consolidated statement of operations for the three months ended March 31, 2002.

On February 27, 2002, the Company completed a private placement of securities with several institutional and individual investors of 3,617,128 shares of common stock at a price per share of $0.6913, generating gross proceeds of approximately $2,500,000, less issuance costs of approximately $35,000. In connection with the financing arrangement, the Company issued to the investors warrants to purchase 1,446,852 shares of common stock of the Company at an exercise price of $0.7542 per share. Also, the Company issued to an institution warrants to purchase 36,164 shares of common stock in connection with a finder fee arrangement entered into between the two parties. Such warrants are exercisable through February 2005.

On March 4, 2002, the Company entered into an equity line of credit agreement with a private equity fund (the "Fund") whereby the Company has the option, but not the obligation, to sell shares of common stock to the Fund for a three-year period at a price per share, as defined. The agreement provides for certain minimum and maximum monthly amounts up to a maximum of $15 million and, in certain circumstances, up to $20 million.

In connection with the equity line of credit, the Company issued 30,000 shares of common stock to the Fund as compensation for certain services rendered in connection with the closing of the line of credit. As such, the Company recorded the fair value of the shares of approximately $31,000 in selling, general and administrative expenses for the three months ended March 31, 2002. Also, the Company granted warrants purchasing up to 150,000 shares of common stock of the Company at an exercise price of $0.8731 per share. Such warrants are exercisable through September 2005. The intrinsic value of said warrants of approximately$140,000 is included in selling, general and administrative expenses.

In April 2002, the Company announced a strategic investment from ROHM Company LTD. ROHM purchased 1,282,051 shares of eMagin Common Stock at $0.78 per share as well as warrants to purchase an additional 512,820 shares of Common Stock at a conversion price of $0.85 per share for an investment of $1,000,000. The fair value of each warrant was estimated on the date of grant using the Black-Scholes option pricing model. Such warrants are exercisable through April 2005.

NOTE 10 - EFFECT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS No. 141 "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". The new standards require that all business combinations initiated after June 30, 2001 must be accounted for under the purchase method. In addition, all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged shall be recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives will no longer be subject to amortization, but will be subject to at least an annual assessment for impairment by applying a fair value based test. eMagin adopted SFAS No. 142 on January 1, 2002. In connection with adopting this standard, eMagin considered the measurement of transitional impairment. eMagin anticipates completing the SFAS No. 142 valuation by the end of fiscal 2002. At this time, eMagin is not able to determine if impairment of its purchased intangibles has incurred. As it relates to goodwill, the initial adoption had no effect on eMagin's financial statements since as of December 31, 2001, eMagin had written off the goodwill balance.

eMagin adopted SFAS No. 142 on January 1, 2002. In connection with adopting this standard, eMagin considered the measurement of transitional impairment. Initial adoption had no effect on eMagin's financial statements since as of December 31, 2001, eMagin had written off the goodwill balance.

In August 2001, the FASB, issued SFAS, No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." SFAS No. 143 addresses financial accounting and reporting for the retirement obligation of an asset. This statement provides that companies should recognize the asset retirement cost at its fair value as part of the cost of the asset and classify the accrued amount as a liability. The asset retirement liability is then accreted to the ultimate payout as interest expense. The initial measurement of the liability would be subsequently updated for revised estimates of the discounted cash outflows. The Statement will be effective for fiscal years beginning after June 15, 2002. eMagin has not yet determined the effect that SFAS No. 143 will have on its consolidated financial position, results of operations or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement eliminates the requirement under SFAS 4 to aggregate and classify all gains and losses from extinguishment of debt as an extraordinary item, net of related income tax effect. This statement also amends SFAS 13 to require that certain lease modifications with economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. In addition, SFAS No. 145 requires reclassification of gains and losses in all prior periods presented in comparative financial statements related to debt extinguishment that do not meet the criteria for extraordinary item in Accounting Principles Board Opinion ("APB") 30. The statement is effective for fiscal years beginning after May 15, 2002 with early adoption encouraged. The Company will adopt SFAS No. 145 effective January 1, 2003. eMagin does not believe the adoption of SFAS 145 will impact its financial position.

On July 30, 2002, The FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to

be applied prospectively to exit or disposal activities initiated after December 31, 2002. eMagin is currently evaluating the requirements and impact of this statement on our consolidated results of operations and financial position.

In November 2002, the EITF reached a consensus on Issue 00-21 ("EITF 00-21"), "Multiple-Deliverable Revenue Arrangements." EITF 00-21 addresses how to account for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. The consensus mandates how to identify whether goods or services or both that are to be delivered separately in a bundled sales arrangement should be accounted for separately because they are separate units of accounting. The guidance can affect the timing of revenue recognition for such arrangements, even though it does not change rules governing the timing or pattern of revenue recognition of individual items accounted for separately. The final consensus will be applicable to agreements entered into in fiscal years beginning after June 15, 2003 with early adoption permitted. Additionally, companies will be permitted to apply the consensus guidance to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes." The Company is assessing, but at this point does not believe the adoption of EIFT 00-21 will have a material impact on its financial position, cash flows or results of operations.

On December 31, 2002, the Financial Accounting Standards Board issued Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to SFAS 123's fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The adoption of SFAS 148disclosure requirements will not have an effect on the Company's Consolidated Financial Statements. The Company does not intend to adopt the fair value method of accounting for stock-based employee compensation.

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NOTE 11 - Contractual Obligations and Commercial Commitments

The following table summarizes contractual obligations and commercial commitments at September 30, 2002:

Contractual Obligations	Less than 1 year	One-Three years	Four-Five years	After 5 years
Long Term Debt		141,278		
Short Term Debt	5,644,177			
Operating leases	5,467,850	7,482,757		

Capital leases	1,455,109	250,695		
Employment leases	-	-	-	-
Tota Contractual Cash Obligations				

NOTE 12 - RECLASSIFICATIONS

Certain amounts in the September 30, 2001 financial statements have been reclassified to conform to the September 2002 classification.

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

Statement of Forward-Looking Information

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by the Company, or any other person, that such forward-looking statements will be achieved. The business and operations of the Company are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this release.

We undertake no duty to update any of the forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on the forward-looking statements contained in this report.

Overview

We design and manufacture miniature display modules, which we refer to as OLED-on-silicon-microdisplays, primarily for incorporation into the products of other manufacturers. Microdisplays are typically smaller than a postage stamp, but when viewed through a magnifier they can contain all of the information appearing on a high-resolution personal computer screen. Our microdisplays use organic light emitting diodes, or OLEDs, which emit light themselves when a current is passed through them. Our technology permits OLEDs to be coated onto silicon chips to produce high resolution OLED-on-silicon microdisplays.

We believe that our OLED-on-silicon microdisplays offer a number of advantages in near to the eye applications over other current microdisplay technologies, including lower power requirements, less weight, fast video speed without flicker, and wider viewing angles. In addition, many computer and video electronic system functions can be built directly into the OLED-on-silicon microdisplay, resulting in compact systems with lower expected overall system costs relative to alternate microdisplay technologies.

Since our inception in 1996, we derived substantially all of our revenues from fees paid to us under research and development contracts, primarily with the U.S. federal government. We have devoted significant resources to the development and commercial launch of our products. We commenced limited initial sales of our SVGA+ microdisplay in May 2001 and commenced shipping samples of our SVGA-3D microdisplay in February 2002. As of September 30, 2002, we had recognized over $1.2 million from sales of our products, and have a backlog of more than $10 million in products ordered for delivery through 2003. We have an additional $10 million in letters of intent for purchases. These products are being applied or considered for near-eye and headset applications in products such as entertainment and gaming headsets, handheld Internet and telecommunication appliances, viewfinders, and wearable computers to be manufactured by original equipment manufacturer (OEM) customers. We have also shipped a limited number of prototypes of our eGlass II Head-wearable Display systems. In addition to marketing OLED-on-silicon microdisplays as components, we also offer microdisplays as an integrated package, which we call Microviewer, that includes a compact lens for viewing the microdisplay and electronic interfaces to convert the signal from our customer's product into a viewable image on the microdisplay. Through our wholly owned subsidiary, Virtual Vision, Inc., we are also developing head-wearable displays that incorporate our Microviewer.

We license our core OLED technology from Eastman Kodak and we have developed our own technology to create high performance OLED-on-silicon microdisplays and related optical systems. We believe our technology licensing agreement with Eastman Kodak, coupled with our own intellectual property portfolio, gives us a leadership position in OLED and OLED-on-silicon microdisplay technology. We are the only company to demonstrate publicly and market full-color OLED-on-silicon microdisplays.

Company History

eMagin Corporation was originally incorporated as Fashion Dynamics Corporation on January 23, 1996 under the laws of the State of Nevada. For the three years prior its acquisition of FED Corporation, Fashion Dynamics Corporation had no active business operations, and sought to acquire an interest in a business with long-term growth potential. On March 16, 2000, Fashion Dynamics Corporation acquired FED Corporation (derived from field emissive device), subsequently changed its name to eMagin Corporation (derived from "electronic imaging") and listed its common stock on the American Stock Exchange under the "EMA" trading symbol.

At our annual meeting of stockholders held on July 16, 2001, the stockholders approved the reincorporation of eMagin Corporation as a Delaware corporation. The reincorporation became effective on July 16, 2001 by merging eMagin Corporation, a Nevada corporation ("eMagin-Nevada"), into its then wholly owned subsidiary, eMagin Corporation, a Delaware corporation (formerly known as FED Corporation as described above) ("eMagin-Delaware"). Upon completion of this merger, eMagin-Nevada ceased to exist as a corporate entity and eMagin-Delaware succeeded to the assets and liabilities of eMagin-Nevada. Under the merger agreement for the reincorporation, each outstanding share of eMagin-Nevada common stock was automatically converted into one share of eMagin-Delaware common stock at the time the merger became effective. There has been no interruption in the trading of our common stock as a result of the reincorporation. The reincorporation also resulted in the implementation of a

new certificate of incorporation and by-laws for the Company, as the existing certificate of incorporation and by-laws of eMagin-Delaware continues as the certificate of incorporation and by-laws of the Company and has replaced the articles of association and by-laws of eMagin-Nevada. No change in the corporate name, board members, business, management, fiscal year, assets, liabilities, employee benefit plans or location of principal facilities of eMagin occurred as a result of the reincorporation.

Our history has been as a developmental stage company. We are now transitioning to manufacturing and intend to significantly increase our marketing, sales, and research and development efforts, and expand our operating infrastructure. Most of our operating expenses are fixed in the near term. If we are unable to generate significant revenues, our net losses in any given period could be greater than expected.

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission ("SEC") defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Not all of the accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

Revenue Recognition

Revenue on product sales is recognized when persuasive evidence of an arrangement exists, such as when a purchase order or contract is received from the customer, the price is fixed, title to the goods has changed and there is a reasonable assurance of collection of the sales proceeds. We obtain written purchase authorizations from our customers for a specified amount of product at a specified price and consider delivery to have occurred at the time of shipment. Revenue is recognized at shipment and we record a reserve for estimated sales returns, which is reflected as a reduction of revenue at the time of revenue recognition.

Revenues from research and development activities relating to firm fixed-price contracts are generally recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Revenues from research and development activities relating to cost-plus-fee contracts include costs incurred plus a portion of estimated fees or profits based on the relationship of costs incurred to total estimated costs. Contract costs include all direct material and labor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party. Amounts can be billed on a bi-monthly basis. Billing is based on subjective cost investment factors.

Results of Operations

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001

Revenues

Revenues for the three months and nine months ended September 30, 2002 were $0.5 million and $1.0 million, respectively, as compared to $1.2 million and $4.8million respectively, for the three months and nine months ended September 30, 2001. Current year revenues consist primarily of product sales and increased by $0.2 million and $0.4 million for the three months and nine months ended September 30, 2002, respectively, as compared to the three months and nine months ended September 30, 2001. We ended the third quarter with a backlog of over $1 million in short term sales orders. Government R&D contract revenues decreased by $.9 million and $4.3 million for the three months and nine months ended September 30, 2002, respectively, as compared to the three months and nine months ended September 30, 2001. Government R&D contract revenues will remain significantly lower in 2002 as the company focuses on product revenues rather than performing Government R&D contracts, although product revenues include sales to government contractors which are funded by Government development or procurement contracts.

Costs and Expenses

Research and Development. Research and development expenses include salaries, development materials, equipment lease and depreciation expenses, electronics, rent, utilities and costs associated with operating the Company's manufacturing facility. Gross research and development expenses for the three months and nine months ended September 30, 2002 were $1 million and $6.4 million, respectively. For the same period in 2001, the Company's gross research and development expenses were $3.6 million and $11.1 million, respectively. The $2.6 million and $4.7 million decrease in gross expenses for the three months and nine months ended September 30, 2002, as compared to the three months and nine months ended September 30, 2001 reflects reduction in staffing and reduction in expenditures related to the company's difficult cash position.

Selling, General and Administrative. Selling, general and administrative expenses consist principally of salaries and fees for professional services, legal fees incurred in connection with patent filings and related matters, amortization, as well as other marketing and administrative expenses. Selling, general and administrative expenses, for the three months and nine months ended September 30, 2002 were $1.6 million and $4.9 million, respectively, as compared to $2.6 million and $7.9 million for the three months and for the nine months ended September 30, 2001. The decrease of $1.0 million and $3.0 million in selling, general and administrative expenses was primarily due to changes in personnel costs, patent filings, and legal fees. We expect marketing, general and administrative expenses to increase in future periods as we add to our sales staff and make additional investments in marketing activities. Included in selling, general and administrative expenses is non-cash expense related to stock-based compensation amortization. Non-cash stock-based compensation expense for the three and nine months ending September 30, 2002 were $0.3 million and $1.3 million, respectively, as compared to $0.7 million and $2.2 million for the three months and nine months ended September 30, 2001. The non-cash stock-based compensation expense for the three and nine months ending September 30, 2002 decreased by $0.4 million and $0.9 million, respectively. Non-cash stock-based compensation costs are the result of amortization of the intrinsic value ascribed for the issuance of stock options at below fair market values. The amortization is done over the vesting period of such options.

Amortization of Purchased Intangibles. Amortization and write down of purchased

intangibles expense for the three months and nine months ending September 30, 2002 was $0.3 million and $1.0 million respectively as compared to $38 million and $50 million for the three months and nine months ended September 30, 2001. The decrease of $38 million and $49 million in these non-cash charges, is the result of the prior year's write-down of the balance in purchased intangibles and goodwill and its impact on future years' amortization.

Other Income (Expense). Other income (expenses) for the three months and nine months ending September 30, 2002 was ($0.4) million and ($1,8) million expense. The increase of $0.2 million and $1.4 million in expense for this non-cash charge was due primarily to the increase in debt discount from the beneficial conversion of a bridge loan entered into by the company and interest expense and penalties on additional debt.

Liquidity and Capital Resources

Current Financial Position and Need for Additional Financing

We need immediately to raise additional equity or debt financing in order to continue as a going concern and need to raise substantial additional equity or debt financing in the very near future to fund our growth and the commercialization of our products. In the event that we raise additional funds through equity financing, substantial equity dilution to investors will result.

Operating leases and certain creditors where eMagin is in default on payments are in the process of being negotiated with the respective creditors. There is no guarantee a positive resolution will be reached with any or all of the creditors. Some of these existing agreements involve potential accelerated liability, depending on the nature of the resolution with the creditors. A conservative version of the possible outcome of the negotiations is assumed in the revised reports.

We had cash and cash equivalents of $1.7 million as of March 31, 2002, $0.1 million as of June 30, 2002 and $0.1 million as of September 30, 2002. Our monthly operating expenses normally are approximately $1.0 million. In addition, $2.8 million of outstanding indebtedness plus accrued interest is due on November 30, 2002. We cannot assure you that our lenders will agree to reschedule or renegotiate the terms of this indebtedness before it becomes due. As of September 30, 2002, another significant portion of our working capital deficit consisted of approximately $7.1 million in accounts payable and accrued expenses. A substantial portion of this amount is past due and owed to leasing companies and law firms. We are currently engaged in discussions regarding rescheduling payment terms and renegotiating balances due with our major creditors.

Subject to available funding, we currently anticipate that we will continue to experience significant growth in our operating expenses for the foreseeable future and that our operating expenses will be the principal use of our cash. In particular, we expect that salaries for employees engaged in manufacturing operations, purchase of inventory and expenses of increased sales and marketing efforts will be the principle uses of additional cash that we raise during the remainder of 2002. Until we raise sufficient funding to manufacture our products and until our inventory procurement and our manufacturing processes are stabilized, which we expect will take approximately three to nine months after any funding, we may experience difficulties in making timely product shipments to all of our customers. After our urgent cash needs are addressed, we expect that our cash requirements over the next 12 months, will be met by a combination

of additional equity or debt financing, and revenues generated by the sales. We expect to continue to devote substantial resources to manufacturing, marketing and selling our products.

Substantially all of our revenues to date have been derived from research and development contracts with the U.S. federal government. We received revenues from government contracts of $14,000 for the nine months ended September 30, 2002, $5.0 million for the year ended December 31, 2001, and $2.6 million for the year ended December 31, 2000. These figures do not include our government contracts in which we provided a cost-share. We anticipate that our total revenues from government contracts in 2002 will be substantially lower than in previous years. The government may terminate our contracts at its discretion. We plan to submit proposals for additional development contract funding; however, funding is subject to legislative authorization and even if funds are appropriated, they may be withdrawn based on changes in government priorities.

We have received increased orders for our products during the third quarter of 2002, and we believe that customer interest remains high. The company ended the third quarter with a backlog of over $1 million in short term orders. Provided that we can obtain adequate financing and successfully negotiate debt restructuring, management believes that the prospects for growth of product revenue remain high. We have received more than $10 million in purchase agreements and are in discussion for additional orders. We are in the early phases of production, although our progress has been impeded by our current cash position. Anticipated increased shipments in the second quarter were delayed, primarily due to certain supply delays, even though base displays were prepared. These components were received behind schedule in July, and shipments resumed. However, our cash position has resulted in reductions in manufacturing staff availability.

Our cash requirements depend on numerous factors, including completion of our product development activities, ability to commercialize our products, market acceptance of our products and other factors. We expect to devote substantial capital resources to continue our development programs directed at commercializing our products in our target markets, hire and train additional staff, expand our research and development activities, develop and expand our manufacturing capacity and begin production activities. Through September 30, 2002 we have incurred accumulated losses of approximately $130 million since our inception and we anticipate incurring significant losses as we fund our growth. Since inception we have financed our operations through private placements of equity securities, research and development contracts and borrowings. As of September 30, 2002, we had $0.1 million in cash and cash equivalents and have a working capital deficit of $11.6 million. In December 2001 and July 2002, we took certain actions to reduce our workforce due to our difficult working capital constraints.

Net cash used in operating activities was $5.5 million for the nine months ended September 30, 2002. Cash used in operating activities resulted primarily from our net loss partially offset by increases from non-cash charges. Net cash used in operating activities for the nine months ended September 30, 2001 was $8.0 million resulting primarily from operating losses.

Net cash used by investing activities was $0.0 million for the nine months ended September 30, 2002, all of which was used for capital expenditures. Net cash used by investing activities for the nine months ended September. 30, 2001 was $0.5 million, which was used for capital expenditures.

Net cash provided by financing activities was $4.9 million for the nine months ended September 30, 2002, and consisted primarily of proceeds from sale of equity and the issuance of debt. Net cash provided by financing activities was $3.8 million for the nine months ended September 30, 2001 year, and consisted primarily of proceeds from the issuance of debt

Factors Which May Affect Future Results

In evaluating our business, prospective investors and shareholders should carefully consider the following risks. Any of the following risks could have a material adverse impact on our business, operating results and financial condition and result in a complete loss of your investment.

Risks Related To Our Financial Results

If we cannot operate as a going concern, our stock price will decline and you may lose your entire investment. Our prior auditors had included an explanatory paragraph in their report on our financial statements for the year ended December 31, 2001 which states that, due to recurring losses from operations since inception of the Company, there is substantial doubt about our ability to continue as a going concern. Our financial statements for the nine months ended September 30, 2002 do not include any adjustments that might result from our inability to continue as a going concern. These adjustments could include additional liabilities and the impairment of certain assets. If we had adjusted our financial statements for these uncertainties, our operating results and financial condition would have been materially and adversely affected.

If we do not obtain additional cash to operate our business, we may not be able to execute our business plan and may not achieve profitability. In the event that cash flow from operations is less than anticipated and we are unable to secure additional funding, in order to preserve cash, we would be required to further reduce expenditures and effect further reductions in our corporate infrastructure, either of which could have a material adverse effect on our ability to continue our current level of operations. Even if we obtain additional working capital in the near future, to the extent that operating expenses increase or we need additional funds to make acquisitions, develop new technologies or acquire strategic assets, the need for additional funding may be accelerated and there can be no assurances that any such additional funding can be obtained on terms acceptable to us, if at all. If we are not able to generate sufficient capital, either from operations or through additional financing, to fund our current operations, we may not be able to continue as a going concern. If we are unable to continue as a going concern, we may be forced to significantly reduce or cease our current operations. This could significantly reduce the value of our securities, which could result in our de-listing from the American Stock Exchange and cause investment losses for our shareholders.

We may not maintain The American Stock Exchange (the "Exchange") listing requirements. To maintain the listing of our common stock on the Exchange, we are required to meet certain listing requirements, in the case of our common stock selling for a substantial period of time at a low price per share. In its review of whether a share price is too low or whether a reverse split is appropriate, the Exchange will consider all pertinent factors, including market conditions in general, the number of shares outstanding, plans which may have been formulated by management, applicable regulations of the state of incorporation or of any governmental agency having jurisdiction over eMagin, and the relationship to other Exchange policies regarding continued listing. If the

Exchange were to determine that our share price is too low and that we should reverse split our shares but we were unable to comply for any reason, our common stock may be delisted from the Exchange. In addition, the financial statements set forth in this Quarterly Report on Form 10-Q have not been reviewed by independent public accountants as required by Item 10-01(d) of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. As result, this report is not in compliance with the rules and regulations of the Securities and Exchange Commission. Delisting of our common stock could materially adversely affect the market price, the market liquidity of our common stock and our ability to raise necessary capital. Moreover, it would likely be more difficult to trade in or to obtain accurate quotations as to the market price of our common stock. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices, other than requirement for the filing of 2nd and 3rd 2002 quarter financial statements reviewed by independent public accountants as required by SAS#71 and the SEC regulations and the 2001 annual meeting delay that is currently planned for mid-2003 in conjunction with the 2002 annual meeting. Certain fees and taxes are due to Delaware, The State of Washington, and the American Stock Exchange.

We have a history of losses since our inception and expect to incur losses for the foreseeable future. Accumulated losses excluding non-cash transactions as of September 30, 2002, were $28.1 million and acquisition related non-cash transactions were $101.9 million, which resulted in an accumulated net loss of $130. million, the majority of which was related to the March 2000 merger and its subsequent write-down of its goodwill. The non-cash losses were dominated by the amortization and write-down of goodwill and purchased intangibles and write-down of acquired in process research and development related to the March 2000 acquisition, and also included some non-cash stock-based compensation. We have not yet achieved profitability and we can give no assurances that we will achieve profitability within the foreseeable future as we fund operating and capital expenditures in areas such as establishment and expansion of markets, sales and marketing, operating equipment and research and development. We cannot assure investors that we will ever achieve or sustain profitability or that our operating losses will not increase in the future.

We are presently dependent on U.S. government contracts. The majority of our revenues to date have been derived from research and development contracts with the U.S. federal government. We may continue to rely on such contracts for revenue until volume commercial sales commence. The government at its discretion may terminate our government contracts. We plan to submit proposals for additional development contract funding; however, funding is subject to legislative authorization and even if funds are appropriated such funds may be withdrawn based on changes in government priorities. No assurances can be given that our existing contracts will continue, that we will be successful in obtaining new government contracts, or that programs through which our contracts are funded will continue to be funded beyond the current fiscal year. Our inability to obtain revenues from government contracts could have a material adverse effect on our results of operations.

Risks Related To Our Intellectual Property

We rely on our license agreement with Eastman Kodak for the development of our products, and the termination of this license, Eastman Kodak's licensing of its OLED technology to others for microdisplay applications, or the sublicensing by Eastman Kodak of our OLED technology to third parties, could have a material adverse impact on our business. Our principal products under development utilize OLED technology that we license from Eastman Kodak. We rely upon Eastman Kodak

to protect and enforce key patents held by Eastman Kodak, relating to OLED display technology. Eastman Kodak's patents expire over a range of years from 2002 to 2020. Our license with Eastman Kodak could terminate if we fail to perform any material term or covenant under the license agreement. Since our license from Eastman Kodak is non-exclusive, Eastman Kodak could also elect to become a competitor itself or to license OLED technology for microdisplay applications to others who have the potential to compete with us. The occurrence of any of these events could have a material adverse impact on our business.

We may not be successful in protecting our intellectual property and proprietary rights. We rely on a combination of patents, trade secret protection, licensing agreements and other arrangements to establish and protect our proprietary technologies. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. Patents may not be issued for our current patent applications, third parties may challenge, invalidate or circumvent any patent issued to us, unauthorized parties could obtain and use information that we regard as proprietary despite our efforts to protect our proprietary rights, rights granted under patents issued to us may not afford us any competitive advantage, others may independently develop similar technology or design around our patents, our technology may be available to licensees of Eastman Kodak, and protection of our intellectual property rights may be limited in certain foreign countries. We may be required to expend significant resources to monitor and police our intellectual property rights. Any future infringement or other claims or prosecutions related to our intellectual property could have a material adverse effect on our business. Any such claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources, or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. Protection of intellectual property has historically been a large yearly expense for eMagin. We have not been in a financial position to properly protect all of our intellectual property, and may not be in a position to do so for some time even if sufficient funding is available for the production and a sales ramp

Risks Related To the Microdisplay Industry

The commercial success of the microdisplay industry depends on the widespread market acceptance of microdisplay systems products. The market for microdisplays is emerging. Our success will depend on consumer acceptance of microdisplays as well as the success of the commercialization of the microdisplay market. At present, it is difficult to assess or predict with any assurance the potential size, timing and viability of market opportunities for our technology in this market. The viewfinder microdisplay market sector is well established with entrenched competitors who we must displace.

The microdisplay systems business is intensely competitive. We do business in intensely competitive markets that are characterized by rapid technological change, changes in market requirements and competition from both other suppliers and our potential OEM customers. Such markets are typically characterized by price erosion. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share. Our ability to compete successfully will depend on a number of factors, both within and outside our control. We expect these factors to include the following: our success in designing, manufacturing and delivering expected new products, including those implementing new technologies on a timely basis; our ability to address the needs of our customers and the quality of our customer services; the quality, performance, reliability, features, ease of use and pricing of our products; successful expansion of our manufacturing capabilities; our efficiency of production, and ability to manufacture and ship products on time; the rate at which original equipment manufacturing customers incorporate our product solutions into their own products; the market acceptance of our customers'

products; and product or technology introductions by our competitors. Our competitive position could be damaged if one or more potential OEM customers decide to manufacture their own microdisplays, using OLED or alternate technologies. In addition, our customers may be reluctant to rely on a relatively small company such as eMagin for a critical component. We cannot assure you that we will be able to compete successfully against current and future competition, and the failure to do so would have a materially adverse effect upon our business, operating results and financial condition.

The display industry is cyclical. The display industry is characterized by fabrication facilities that require large capital expenditures and long lead times go construct leading to frequent mismatches between supply and demand. The OLED microdisplay sector may experience overcapacity if and when all of the facilities presently in the planning stage come on line leading to a difficult market in which to sell our products.

Competing products may get to market sooner than ours. Our competitors are investing substantial resources in the development and manufacture of microdisplay systems using alternative technologies such as reflective liquid crystal displays (LCDs), LCD-on-Silicon ("LCOS") microdisplays, active matrix electroluminescence and scanning image systems, and transmissive active matrix LCDs. Color LCOS displays are currently in initial production, and may be in higher volume production a year or more earlier than our microdisplays, which could have a significant detrimental effect on our market opportunity.

Our competitors have many advantages over us. As the microdisplay market develops, we expect to experience intense competition from numerous domestic and foreign companies including well-established corporations possessing worldwide manufacturing and production facilities, greater name recognition, larger retail bases and significantly greater financial, technical, and marketing resources than us, as well as from emerging companies attempting to obtain a share of the various markets in which our microdisplay products have the potential to compete.

Our products are subject to lengthy OEM development periods. We plan to sell most of our microdisplays to OEMs who will incorporate them into products they sell. OEMs determine during their product development phase whether they will incorporate our products. The time elapsed between initial sampling of our products by OEMs, the custom design of our products to meet specific OEM product requirements, and the ultimate incorporation of our products into OEM consumer products is significant. If our products fail to meet our OEM customers' cost, performance or technical requirements or if unexpected technical challenges arise in the integration of our products into OEM consumer products, our operating results could be significantly and adversely affected. Long delays in achieving customer qualification and incorporation of our products could adversely affect our business.

Our products will likely experience rapidly declining unit prices. In the markets in which we expect to compete, prices of established products tend to decline significantly over time. In order to maintain our profit margins over the long term, we believe that we will need to continuously develop product enhancements and new technologies that will either slow price declines of our products or reduce the cost of producing and delivering our products. While we anticipate many opportunities to reduce production costs over time, there can be no assurance that these cost reduction plans will be successful. We may also attempt to offset the anticipated decrease in our average selling price by introducing new products, increasing our sales volumes or adjusting our product

mix. If we fail to do so, our results of operations would be materially and adversely affected

Risks Related To Manufacturing

We expect to depend on semiconductor contract manufacturers to supply our silicon integrated circuits and other suppliers of key components, materials and services. We do not manufacture our silicon integrated circuits on which we incorporate the OLED. Instead, we expect to provide the design layouts to semiconductor contract manufacturers who will manufacture the integrated circuits on silicon wafers. We also expect to depend on suppliers of a variety of other components and services, including circuit boards, graphic integrated circuits, passive components, materials and chemicals, and equipment support. Our inability to obtain sufficient quantities of high quality silicon integrated circuits or other necessary components, materials or services on a timely basis could result in manufacturing delays, increased costs and ultimately in reduced or delayed sales or lost orders which could materially and adversely affect our operating results.

The manufacture of OLED-on-silicon is new and OLED microdisplays have not been produced in significant volumes. We expect to begin commercial production during 2002 to meet anticipated demand for our products. If we are unable to produce our products in sufficient quantity, we will be unable to attract customers. In addition, we cannot assure you that once we commence volume production we will attain yields at high throughput that will result in profitable gross margins or that we will not experience manufacturing problems which could result in delays in delivery of orders or product introductions.

We are dependent on a single manufacturing line. We initially expect to manufacture our products on a single manufacturing line. If we experience any significant disruption in the operation of our manufacturing facility we may be unable to supply microdisplays to our customers. For this reason, some OEMs may also be reluctant to commit a broad line of products to our microdisplays without a second production facility in place. Interruptions in our manufacturing could be caused by manufacturing equipment problems, the introduction of new equipment into the manufacturing process or delays in the delivery of new manufacturing equipment. Lead-time for delivery of manufacturing equipment can be extensive. No assurance can be given that we will not lose potential sales or be unable to meet production orders due to production interruptions in our manufacturing line. In order to meet the requirements of certain OEMs for multiple manufacturing sites, we will have to expend capital to secure additional sites and may not be able to manage multiple sites successfully.

Risks Related To Our Business

Our success depends in a large part on the continuing service of key personnel. Changes in management could have an adverse effect on our business. We are dependent upon the active participation of several key management personnel including Gary W. Jones, our Chief Executive Officer. We also need to recruit additional management in order to expand according to our business plan. The failure to attract and retain additional management or personnel could have a material adverse effect on our operating results and financial performance.

Our success depends on attracting and retaining highly skilled and qualified

technical and consulting personnel. We must hire highly skilled technical personnel as employees and as independent contractors in order to develop our products. The competition for skilled technical employees is intense and we may not be able to retain or recruit such personnel. We must compete with companies that possess greater financial and other resources than we do, and that may be more attractive to potential employees and contractors. To be competitive, we may have to increase the compensation, bonuses, stock options and other fringe benefits offered to employees in order to attract and retain such personnel. The costs of retaining or attracting new personnel may have a materially adverse affect on our business and our operating results. In addition, difficulties in hiring and retaining technical personnel could delay the implementation of our business plan.

Our business depends on new products and technologies. The market for our products is characterized by rapid changes in product, design and manufacturing process technologies. Our success depends to a large extent on our ability to develop and manufacture new products and technologies to match the varying requirements of different customers in order to establish a competitive position and become profitable. Furthermore, we must adopt our products and processes to technological changes and emerging industry standards and practices on a cost-effective and timely basis. Our failure to accomplish any of the above could harm our business and operating results.

Our microdisplay business may not be successful. The market for microdisplays may develop later than anticipated by us may therefore limit our sales potential for the foreseeable future.

We generally do not have long-term contracts with our customers. Our business is operated on the basis of short-term purchase orders and we cannot guarantee that we will be able to obtain long-term contracts for some time. In the absence of a backlog of orders that can only be canceled with penalty, we plan production on the basis of internally generated forecasts of demand, which makes it difficult to accurately forecast revenues. If we fail to accurately forecast operating results, out business may suffer and the value of your investment in the Company may decline.

Our business strategy may fail if we cannot continue to form strategic relationships with companies that manufacture and use products that could incorporate our OLED-on-silicon technology. Our prospects will be significantly affected by our ability to develop strategic alliances with OEMs for incorporation of our OLED-on-silicon technology into their products. While we intend to continue to establish strategic relationships with manufacturers of electronic consumer products, personal computers, chipmakers, lens makers, equipment makers, material suppliers and/or systems assemblers, there is no assurance that we will be able to continue to establish and maintain strategic relationships on commercially acceptable terms, or that the alliances we do enter in to will realize their objectives. Failure to do so would have a material adverse effect on our business.

We will need to obtain additional financing, which may not be available on suitable terms, and as a result our ability to grow or continue existing operations may be limited. Our future liquidity and capital requirements are difficult to predict because they depend on numerous factors, including our success in completing the development of our products, manufacturing and marketing our products and competing technological and market developments. We may not be able to generate sufficient cash from our operations to meet additional working capital requirements, support additional capital expenditures

or take advantage of acquisition opportunities. In addition, substantial additional capital may be required in the future to fund product development and product launches. No assurance can be given that additional financing will be available or that, if available, such financing will be obtainable on terms favorable to our shareholders or us. To the extent we raise additional capital by issuing equity or securities convertible into equity, our current shareholders will suffer dilution in ownership. If needed capital is unavailable, our ability to continue to operate and grow our business could be adversely affected. Even if capital is available at acceptable cost, we might not be able to manage growth effectively.

Our business depends to some extent on international transactions. We purchase needed materials from companies located abroad and may be adversely affected by political and currency risk, as well as the additional costs of doing business with a foreign entity. In addition, many of the OEMs that are the most likely long term purchasers of our microdisplays are located abroad exposing us to additional political and currency risk. We may find it necessary to locate manufacturing facilities abroad to be closer to our customers which could give expose us to various risks including management of a multi-national organization, the complexities of complying with foreign law and custom, political instability and the complexities of taxation in multiple jurisdictions.

Our business may expose us to product liability claims. Our business exposes us to potential product liability claims. Although no such claim has been brought against us to date, and to our knowledge no such claim is threatened or likely, we may face liability to product users for damages resulting from the faulty design or manufacture of our products. While we maintain product liability insurance coverage, there can be no assurance that product liability claims will not exceed coverage limits, fall outside the scope of such coverage, or that such insurance will continue to be available at commercially reasonable rates, if at all.

Our business is subject to environmental regulations and possible liability arising from potential employee claims of exposure to harmful substances used in the development and manufacture of our products. We are subject to various governmental regulations related to toxic, volatile, experimental and other hazardous chemicals used in our design and manufacturing process. Our failure to comply with these regulations could result in the imposition of fines or in the suspension or cessation of our operations. Compliance with these regulations could require us to acquire costly equipment or to incur other significant expenses. We develop, evaluate and utilize new chemical compounds in the manufacture of our products. While we attempt to ensure that our employees are protected from exposure to hazardous materials we cannot assure you that potentially harmful exposure will not occur or that we will not be liable to employees as a result.

Risks Related To Our Stock

The substantial number of shares that are or will be eligible for sale could cause our common stock price to decline even if the Company is successful. Sales of significant amounts of common stock in the public market, or the perception that such sales may occur, could materially affect the market price of our common stock. These sales might also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. As of September, 2002, we have outstanding options to purchase 6,529,225 shares; some are currently locked-up due to contractual restrictions.

The restrictions on the sale of the remaining shares will lapse between February 1, 2002 and January 7, 2003. There are also outstanding warrants to purchase 6,924,153 shares of common stock.

We do not intend to pay dividends; you will not receive funds without selling shares; and you may lose the entire amount of your investment. We have not paid any dividends on our common stock and we do not plan to pay cash dividends in the foreseeable future. We intend to retain our earnings, if any, for use in our business. We further cannot assure you that you will receive a return on your investment when you sell your shares or that you will not lose the entire amount of your investment.

Our principal stockholders, officers and directors will own a significant voting interest in our voting stock. Current directors and officers of eMagin Corporation or their affiliates beneficially own a large percentage of our outstanding common stock. If these shareholders were to vote together, they could significantly influence the outcome of items that are submitted to a vote of the shareholders including the election of our directors.

We have a staggered Board of Directors and other anti-takeover provisions, which could inhibit potential investors or delay or prevent a change of control that may favor you. Our Board of Directors is divided into three classes and our Board members are elected for terms that are staggered. This could discourage the efforts by others to obtain control of the company. Some of the provisions of our certificate of incorporation, our bylaws and Delaware law could, together or separately, discourage potential acquisition proposals or delay or prevent a change in control. In particular, our board of directors is authorized to issue up to 10,000,000 shares of preferred stock (less any outstanding shares of preferred stock) with rights and privileges that might be senior to our common stock, without the consent of the holders of the common stock.

We cannot forecast our future performance. We cannot accurately forecast our revenues because of our limited commercial operating history and because the OLED microdisplay market is only beginning to emerge. We may experience significant fluctuations in our quarterly operating results due to many factors, which are outside our control. These factors include: fluctuation in demand and orders for our products; timing or cost of future supply or equipment deliveries; manufacturing capacity and yields; variations in product and process development costs; expenses or operational disruptions resulting from acquisitions; activities of our competitors; adequate working capital; and general economic conditions. Due to these factors, we cannot anticipate with any degree of certainty what our revenues, if any, will be in future periods. You have limited historical financial data and operating results with which to evaluate our business and our prospects. As a result, you should consider our prospects in light of the expense, difficulties and delays frequently encountered by early stage companies formed to pursue development of new technologies.

Our share price is likely to be highly volatile which may result in substantial losses for investors. Share price volatility may subject us to securities class action litigation. Prices and trading volume for technology related stock has been highly volatile. Accordingly, our stock prices are likely to also be highly volatile. Shareholders may experience a decrease in the value of their common stock regardless of our operating performance or prospects. In addition, the trading price of our common stock could be subject to wide fluctuations in response to: our perceived prospects; quarter to quarter variations in our operating results; changes in earnings estimates or recommendations by securities analysts and market perceptions of our operating results in relation to those estimates or recommendations; changes in market valuation of companies in the microdisplay systems industry; announcements of technological innovations or new products by us or our competitors; economic, political, and issues associated with our customers, suppliers, partners, accountants, governmental

agencies in the USA and elsewhere, or other parties; sales of shares by other shareholders; and general conditions in the personal products industries or stock market conditions. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their share price. Those companies, like us, that are involved in rapidly changing technology markets are particularly subject to this risk. This type of litigation, if instituted against us, could result in substantial costs and divert our management's attention and resources, which could cause serious harm to our business.

ITEM 3: QUALITATIVE AND QUANTITATIVE Disclosures About Market Risk

This Form 10-Q report contains forward-looking statements within the meaning of the securities laws that are based on current expectations, estimates, forecasts and projections about the industries in which eMagin operates, management's beliefs, and assumptions made by management. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of eMagin. Words such as "expects", "anticipates", "intends", "plans", "believes", "could", "seeks", "estimates", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause or contribute to such differences in outcomes and results, include, but are not limited to, those discussed below.

Interest Rate Risk

Substantially all of the Company's cash equivalents and investment securities are at fixed interest rates, and as such, the fair market value of these instruments is affected by changes in market interest rates. As of September 30, 2002, all of the Company's cash equivalents and investment securities mature within one year. Accordingly, we believe that the market risk arising from our holdings of these financial instruments is immaterial. However, in the future, we may invest in securities with maturities of more than one year, which may carry greater interest rate risk.

Foreign Currency Exchange Risk

Presently, all of the Company's research and development contract payments are made in U. S. dollars and, consequently, we believe we have no direct foreign currency exchange rate risk. However, in the future, we may enter into contracts in foreign currencies, which may subject the Company to foreign exchange rate risk. We do not have any derivative instruments and do not presently engage in hedging transactions.

PART II--OTHER INFORMATION

Item 5. Other Information

On April 3, 2002, the Company announced that it had received a strategic

investment from ROHM Company LTD. ROHM purchased 1,282,051 shares of eMagin Common Stock at $0.78 per share as well as warrants to purchase an additional 512,820 shares of Common Stock at a conversion price of $0.85 per share for an investment of US $1,000,000.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits List

EXHIBIT NUMBER	DESCRIPTION
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 issued by the Chief Executive Officer.

(b) Reports on Form 8-K

The Company filed seven reports on form 8-K during the quarter ended September 30, 2002. Information regarding the items reported on is as follows:

DATE OF REPORT	ITEM REPORTED ON
July 29, 2002	It was disclosed that eMagin Crop. Was notified by the Securities and Exchange Commission that Arthur Anderson was unable to perform future audit services.
August 21, 2002	Disclosed that eMagin Corp. issued to two investors 8% series B Convertible Debentures due August 21, 2004 whereby each investor agreed to lend EMagin Corp. $121,739 for a total of $243,478.
	Disclosed that Travelers and eMagin agreed to extend the maturity date of the Convertible Promissory Note from August 30, 2002 to September 30, 2002.
	Disclosed that eMagin and Mr. Mortimer D.A. Sackler agreed to extend the maturity date of the Secured Convertible Note from August 30, 2002 to September 30, 2002.
	Disclosed that eMagin and Ginola Limited agreed to extend the maturity date of the Secured Convertible Note from August 30, 2002 to September 30, 2002.
	Disclosed that eMagin and Jack Rivkin agreed to extend the maturity date of the Secured Convertible Note from August 30, 2002 to September 30, 2002.

September 23, 2002	Disclosed upon recommendation of the Audit Committee and of it's Board Of Directors, engaged Grant Thornton LLP to serve as the company's Independent auditors.
September 30, 2002	Disclosed that Travelers and eMagin agreed to extend the maturity date of the Convertible Promissory Note from August 30, 2002 to September 30, 2002.
	Disclosed that eMagin and Mr. Mortimer D.A. Sackler agreed to extend the maturity date of the Secured Convertible Note from September 30, 2002 to October 31, 2002.
	Disclosed that eMagin and Ginola Limited agreed to extend the maturity date of the Secured Convertible Note from September 30, 2002 to October 31, 2002.
	Disclosed that eMagin and Jack Rivkin agreed to extend the maturity date of the Secured Convertible Note from September 30, 2002 to October 31, 2002.

SIGNATURES

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

eMAGIN CORPORATION

Dated: February 7, 2003

By: /s/ Gary W. Jones

Gary W. Jones
Chief Executive Officer

Exhibit 99.1

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

In connection with the 10Q of eMagin Corporation (the "Company") for the quarter period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward V. Flynn, Chief Financial Officer of the Company, certify, pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the undersigned's knowledge:

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

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

Certification of Principal Executive Officer

I, Gary W. Jones, Chief Executive Officer of eMagin Corporation, certify that:

I have reviewed this quarterly report on Form 10-Q of eMagin Corporation;

1. Based on my knowledge, this quarterly 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 quarterly report;

2. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

3. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 7, 2003

/s/ Gary W. Jones

Name: Gary W. Jones
Title: Chief Executive Officer