EMAGIN CORP
Form 10QSB
August 19, 2003

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

FORM 10-QSB

(Mark One)

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2003

[ ] 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: 000-247

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 August 18, 2003 the Registrant had 38,502,090 shares of Common Stock outstanding.

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

PART I. FINANCIAL INFORMATION

Index

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets at June 30, 2003 (Unaudited) and December 31, 2002 *

Unaudited Consolidated Statements of Operations for the Three and Six Months ended June 30, 2003 and June 30, 2002

Unaudited Consolidated Statements of Cash Flows for the Six Months ended June 30, 2003 and June 30, 2002

Unaudited Consolidated Statement of Changes in Stockholder Equity from December 31, 2002 to June 30, 2003

Selected Notes to Consolidated Financial Statements

* Information with respect to December 31, 2002 is derived from our audited financial statements included on form 10KSB

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

Item 3. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

eMAGIN CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 20
CURRENT ASSETS:	(Unaudite
Cash and cash equivalents	$ 530,5
Trade receivables, net of allowance for doubtful accounts of $37,398 and $36,144 at June 30, 2003 and December 31, 2002, respectively	407,1
Unbilled costs and estimated profits on contracts in progress	75,3
Inventory	522,2
Prepaid expenses and other current assets	1,044,7
Total current assets	2,580,0

EQUIPMENT AND LEASEHOLD IMPROVEMENTS:	2,341,6
Less: Accumulated Depreciation	(1,846,1
Total equipment and leasehold improvements, net	495,4
Intangible Assets	18,020,0
Less: Accumulated Amortization	(18,020,0
Total intangible assets, net	--
Other long-term assets	109,4
Total assets	$ 3,184,9

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	$ 324,8
Accrued payroll and benefits	1,207,6
Other accrued expenses	1,041,7
Current portion of long-term debt	408,1
Other short term debt	1,617,3
Other current liabilities	5
Total current liabilities	4,600,2
NOTES PAYABLE	1,815,8
OTHER LONG-TERM DEBT	3,141,4
SHAREHOLDERS' EQUITY:	
Common Stock, par value $0.001 per share	
Shares authorized - 100,000,000	
Shares issued and outstanding - 38,061,383 and 30,854,980	38,1
Additional paid-in capital	127,339,6
Deferred compensation	(263,5
Accumulated deficit	(133,486,8
Total shareholders' equity	(6,372,6
Total liabilities and shareholders' equity	$ 3,184,9

See selected notes to financial statements

3

eMAGIN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six M En June 3
REVENUE:				

Contract revenue	$ -	$ -	$ -	$
Product revenue, net of returns	306,991	268,127	772,370	
Total Revenue	306,991	268,127	772,370	
Cost of Goods Sold:				
Costs of goods sold	122,441	-	1,257,309	
Sales Commissions	-	-	15,000	
Total Cost of Goods Sold	122,441	-	1,272,309	
Gross Profit (loss)	184,550	268,127	(499,939)	
COSTS AND EXPENSES:				
Research and development, net of funding	-	3,343,048	21,848	5,
Production expense	895,366	-	895,366	
Amortization of purchased intangibles		110,483	331,442	
Gain on payable forgiveness	(1,885,423)		(1,885,423)	
Selling, general and administrative	633,702	379,473	1,750,434	3,
Total costs and expenses, net	(356,355)	3,833,004	1,113,667	9,
OTHER INCOME (EXPENSE):				
Interest expense	(234,526)	(627,344)	(485,506)	(1,
Interest income		128,690	-	
Other Income (expense)	209,520	62,487	209,520	
Other income (expense)	(25,006)	(436,167)	(275,986)	(1,
Gain (loss) before provision for income taxes	515,899	(4,001,044)	(1,889,592)	(10,
PROVISION FOR INCOME TAXES	-	-	-	
Net income (loss)	$ 515,899	$(4,001,044)	$(1,889,592)	$(10,
Basic gain (loss) per common share	$ 0.02	$ (0.13)	$ (0.06)	
Diluted gain (loss) per common share	$ 0.02	$ (0.13)	$ (0.06)	
Weighted average common shares outstanding	34,037,250	30,294,980	32,393,723	28,

See selected notes to financial statements.

4

eMAGIN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months ended June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:	

Net loss	$ (1,889,592
Adjustments to reconcile net loss to net cash used in operating activities-	
Depreciation and amortization	245,661
Writedown of goodwill and purchased intangibles	331,442
Loss on sale of assets	-
Amortization of debt discount	53,169
Non-cash compensation for beneficial conversion	24,688
Non-cash charge for stock based compensation	199,396
Non-cash interest related charges	409,305
Non-cash charge for services received	153,121
Non-cash debt restructure	(1,885,423
Proceeds from sale of equipment, net	209,520
Changes in operating assets and liabilities:	
Trade receivables	(167,018
Unbilled costs and estimated profits on contracts in progress	50,000
Inventory	(271,300
Prepaid expenses and other current assets	(1,035,908
Other long-term assets	50,710
Advanced payment on contracts to be completed	9,385
Deferred Revenue	(29,900
Accounts payable, accrued expenses and accrued payroll	850,209
Other current liabilities	(204,214
Net cash used in operating activities	(2,896,749
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of equipment	(109,619
Net cash used in investing activities	(109,619
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from sales of common stock, net of issuance costs	-
Proceeds from exercise of stock options and warrants	103,940
Proceeds from long and short term debt	3,350,000
Payments of long term debt and capital leases	-
Net cash provided by financing activities	3,453,940
NET INCREASE IN CASH AND CASH EQUIVALENT'S	447,572
CASH AND CASH EQUIVALENTS, beginning of period	82,951
CASH AND CASH EQUIVALENTS, end of period	$ 530,523
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
NON-CASH FINANCING ACTIVITIES:	
Settlements of long term debt and payables in shares of common stock	4,845,537
Interest prepaid in shares of common stock	748,116

See selected notes to financial statements.

eMAGIN CORPORATION

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Shares	$	Deferred Compensation	Additional Paid-in Capital
Balance, December 31, 2002	30,854,980	$ 30,855	$ (462,983)	119,221,276
Stock warrants exercised	91,425	91		49,909
Issuance of common stock for services	339,433	340		273,457
Amortization of deferred compensation			111,385	
Net loss for period				
Balance, March 31, 2003	$ 31,285,838	$ 31,286	$ (351,598)	$ 119,544,643
Conversion to common stock for debt	4,633,590	4,633		4,239,260
Issuance of common stock for services	125,002	125		91,970
Exercise of options	129,675	130		53,810
Issuance of common stock for payable forgiveness	1,997,840	1,998		1,409,971
Amortization of deferred compensation			88,011	
Warrants issued with convertible notes payable				1,383,203
Beneficial conversion on financing				616,797
Net income (loss) for period				
Balance, June 30, 2003	38,171,945	$ 38,172	$ (263,587)	$ 127,339,654

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

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 June 30, 2003 are not necessarily indicative of the results to be expected for the full year.

Note 2 - 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.

As of January 1, 2003 the Company has completed its development stage, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises". The financial statements results as of December 31, 2002 and the period ended March 31, 2002 have been restated to reflect the current status. The Company expects its product revenues to increase as we concentrate on trade revenue, once additional supplies begin to arrive and shipments of finished product again begin to ship. The effects on accounting for 2003 will be substantial. The majority of sales before 2003 were Contract Revenue in which our costs were treated as overall company losses. In 2002 we started minimal production. We initially shipped only developer kits and sample quantities of our SVGA+ OLED microdisplay product. We expanded the product line with a SVGA 3D product. We now provide both color and several variations of monochrome versions of these products. Our customers generally spend six to over twelve months evaluating and testing our product and developing their own end product, which uses our display before committing to larger orders. We expect the quantities of products shipped to increase as we receive the materials and supplies we ordered after our recent financing and we hire additional staff to increase our manufacturing capacity, enabling us to begin shipping products to fulfill our backlog of orders as well as ship new orders.

The cost of the products we sold in 2002 were predominately recorded in R&D and Direct Contracts as we modified our product to create commercial products. In the third quarter of 2002, we developed a glass cover that improved the robustness of our products. In the fourth quarter of 2002, we purchased a machine that allowed us to produce the products in production quantities. In the first quarter of 2003, the machine came on-line.

In 2003 we will keep track of costs of production, classifying direct and indirect costs to costs of goods sold and tracking our gross profit. Although R&D is no longer our primary focus, we have a few employees that will

work on projects to create new products and enhance existing products. We are working to secure new, R&D contracts to help create the next generation of lower cost and/or higher resolution products, as well as to develop other performance and life-luminance product enhancements. Contract R&D is expected to continue in 2003, but at proportionately much smaller levels than in prior years.

There can be no assurance 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.

Note 3 - 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. The company is currently under contract to one or more entities for research and development, and expects to undertake activities and realize revenues related to such research and development work in future quarters.

In addition, the Company has product sales, which are recognized when merchandise is shipped and such revenue is recorded net of estimated sales returns based upon past experience. Adjustments to such returns are made as new information becomes available.

In 2003 we will keep track of costs of production, classifying direct and indirect costs to cost of goods sold and tracking our gross profit. Although R&D as our primary focus will end, we have a few employees that will occasionally work on projects to create new products and enhance existing products. At present, we have no direct contracts we are billing to, but we may at times be asked to work on a completed contract. Although we will not have any income from that work, it may provide a foundation for future contracts and we will record those costs in direct contracts.

Note 4 - 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 5 - NET (LOSS) PER COMMON SHARE

In accordance with SFAS No. 128, net income (loss) per common share amounts ("basic EPS") were computed by dividing net income (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, warrants and convertible debt where all

contingencies have been met. Common equivalent shares totaling 13,247,270 have been excluded from the computation of diluted EPS for the three and six months ended June 30, 2003, which include 961,260 weighted options in-the-money, 826,147 weighted warrants in-the-money and 11,459,863 convertible shares. Common equivalent shares totaling 11,767,740 have been excluded from the computation of diluted EPS for the three and six month period ending June 30, 2002.

Note 6 - DEBT

a	Current portion of long term debt	$ 408,171
b	Other short term debt	1,617,340
c	Notes payable	1,815,872
d	Other long term debt	3,141,460
e	Total debt	$ 6,982,843

(a) This amount includes (i) $11,374 due to Citicorp leasing over the next 12 months in lease payments for equipment; and (ii) $42,297 due to IBM over the next 12 months for leasehold improvements; and (iii) $354,500 due to Finova over the next twelve months in lease payments for equipment.

(b) On April 25, 2003, we entered into a global restructuring and secured note purchase agreement with a group of several accredited institutional and individual investors whereby the Investors agreed to lend us $6,000,000 in exchange for (i) the issuance of $6,000,000 principal amount of 9.00% secured convertible promissory notes due and payable on November 1, 2005 and (ii) warrants to purchase an aggregate of 7,749,921 shares of common stock of eMagin (subject to certain customary anti-dilution adjustments), such warrants are exercisable for a period of three (3) years.

Interest is payable on the notes at a rate of 9% per annum and, at our option, may be paid through the delivery of shares of our common stock (registered pursuant to the registration rights agreement referred to below) in lieu of cash interest payments on the maturity date of the loan, November 1, 2005. Subject to certain limitations, the notes may be converted, at the option of the holder, in whole or in part, into common shares with a conversion price equal to 105% of the volume weighted average of the closing price of our common shares as reported on The American Stock Exchange by the Wall Street Journal, New York City edition, for the five (5) trading days immediately preceding the closing date. The exercise price of the warrants on a per share basis is $.8110, an amount equal to 110% of the volume weighted average of the closing price of our common shares as reported on The American Stock Exchange by the Wall Street Journal, New York City edition, for the five (5) trading days immediately preceding the closing date.

Receipt of the $6 million financing is payable in increments according to a set schedule through October 2003. As of June 30, 2003 we received $3,350,000. In June 2003, the company recorded $1,289,575 for the debt discount and $510,425 for the beneficial conversion as paid in surplus, which is amortized through

November 2005. For the quarter ended June 30, 2003, $67,340 has been amortized to interest expense.

The terms of the notes contain certain revisions, including financial and other covenants, which covenants relate to expenses, direct cost of goods sold, revenue and quarterly revenue. In the event that the company is not in compliance with these covenants, 50% or more of the holders of the notes (in terms of the aggregate dollar value of the principal of the notes then issued and outstanding under the note purchase agreement) would be able to call an event of default. As of the date of the final tranche closing related to the April 2003 financing, we were in violation of one of the representations and warranties contained in the Note Purchase Agreement, which violation may be deemed to constitute a default under the promissory notes issued in connection with the April

2003 financing. Such violation relates to the litigation commenced by Vertical Ventures. We are in the process of seeking to obtain a forbearance from a majority in interest of the investors in the April 2003 Financing pursuant to which they will agree not to enforce their remedies for such event of default. We have reclassified this debt to short term debt until the forbearance is obtained.

c) This amount includes (i) 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. As of June 30, 2003, we show $31,561 balance to be amortized.

(ii) On January 14, 2002, the Company entered into a $1.0 million bridge loan arrangement with a private 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 November 1, 2005 as a result of a financing we completed in April 2003. Terms of the notes issued on January 14, 2002 also included 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 (the "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 issued in November 2001 equivalent to the terms granted to the investors in January 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 was amortized into interest expense over the original period of the debt.

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 connection with the April 2003 financing described above, the Investor agreed, to (a) amend the secured note issued to them, (b) terminate the security agreement dated November 20, 2001 that was entered into in connection with the purchase of the original secured notes and allow the new investors to enter into a new security agreement with them on a pari passu basis in order for eMagin to continue its operations as a developer of virtual imaging technology, and (c) simultaneously participate in the new financing. The amendments to the notes included (i) extending the maturity dates of the note from June 30, 2003 to November 1, 2005, and (ii) revising and clarifying certain of the other terms and conditions of the note, including provisions relating to default and assignment of the note. The defaults of this note were modified to the same conditions as the new financing.

(iii) 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 was due to mature on November 1, 2005 as a result of a financing we completed in April 2003. The Company also granted warrants, exercisable for a period

10

of five years, to purchase 300,000 shares of common stock with an exercise price of $0.4257 per share to the investor; provided, however, this warrant may not be exercised by the investor so long as the investor is the beneficial owner, directly or indirectly, of more than ten percent (10%) of the common stock of eMagin for purposes of Section 16 of the Securities Exchange Act 1934. The fair value of the warrants issued to this Investor, which 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 was amortized into interest expense over the period of the debt. Pursuant to the April 2003 financing described above, the investor agreed, to (a) amend the secured note issued to them, (b) terminate the security agreement dated June 20, 2002 that was entered into in connection with the purchase of the original secured notes and allow the new investors to enter into a new security agreement with them on a pari passu basis in order for eMagin to continue its operations as a developer of virtual imaging technology, and (c) simultaneously participate in the new financing. The amendments to the note included (i) amending the note issued on June 20, 2002 so as to provide that the note shall be convertible and will have the same conversion price as the notes issued pursuant to the April 2003 secured note purchase agreement, (ii) extending the maturity dates of the note from June 30, 2003 to November 1, 2005, and (iii) revising and clarifying certain of the other terms and conditions of the note, including provisions relating to interest payments, conversions, default and assignment of the note. Due to the amendment to a convertible note, we recorded $106,372 beneficial conversion discount and $93,628 original debt discount, to be amortized through November 2005. For the quarter ended June 30, 2003, $10,517 has been amortized to interest expense.

(d) This amount includes (i) $42,581 due to Citicorp leasing as long-term debt for lease payments for equipment; and (ii) $3,879 due to IBM as long-term debt for leasehold improvements; and (iii) $3,095,000 due to Finova as long-term debt in lease payments and mandatory buyout for equipment.

(e) In April 2003, we entered into an agreement to convert $3 million principal note to Common Stock at a conversion price from the original agreement of $1.28 per share, for a total of 2,495,833 shares. This transaction includes the original $3,000,000 net of approximately $114,000 original issue discount as well as approximately $43,000 in financing costs not amortized as of the date of

stock issuance.

Also in April 2003, we also entered into an agreement to convert $1 million principal convertible note plus related interest into our common stock at a conversion price from the original agreement of approximately $0.53 per share, for a total of 2,137,757 shares.

Note 7 - Debt Restructure

In connection with the completion of the transactions under the note purchase agreement, we entered into a security agreement with the Investors dated as of April 25, 2003, and a registration rights agreement dated as of April 25, 2003 providing the investors with certain registration rights under the Securities Act of 1933, as amended, with respect to our common stock issued or issuable in lieu of cash interest payments on the notes, upon conversion of the notes and/or exercise of the warrants.

In addition to the foregoing, as a condition to and simultaneously with the closing of the transaction pursuant to the secured note purchase agreement, certain holders of our convertible notes agreed to convert approximately $4.9 million of notes and accrued interest into shares of our common stock, subject to a "lock up" arrangement allowing only limited sales through private transactions for their remaining shares through December 31, 2003. Specifically, The Travelers Insurance Company agreed to convert their $1 million convertible note plus related interest into our common stock at a conversion price from the original agreement of approximately $0.53 per share, and SK Corporation has agreed to convert its $3 million convertible note and accrued interest into our common stock at an approximate conversion price of approximately $1.28 per share. There was no gain on this

transaction. As further conditions to the closing of the transaction pursuant to the secured note purchase agreement, we have also entered into settlement or restructuring agreements with certain of our other creditors to whom we owed approximately $5.2 million of current payables, pursuant to which the creditors have agreed to accept shares of our common stock in full or partial satisfaction of the amount owed to them, or which allow us to either make discounted payments to them or to make payments under more favorable payment terms than previously were in place. The Company converted the $1,000,000 loan plus interest to Travelers in common shares totaling 2,137,757 at a conversion price from the original agreement of approximately $0.53 per share, based on the market value of our common stock on the date the agreement was entered into. The Company recorded 1,013,017 as paid in capital for this transaction. The company also converted the $3,000,000 loan plus interest to SK Corporation in common shares totaling 2,495,833 at a conversion price from the original agreement of approximately $1.28 per share, based on the market value of our common stock on the date the agreement was entered into. The Company recorded 2,883,394 as paid in capital for this transaction.

In June 2003, the Company negotiated settlement of amounts due and amounts for future services totaling $418,207 to related parties for services rendered via issuance of 125,002 shares of common stock. The Company also received approximately $52,000 for the exercise of 129,675 option shares. The Company also issued 1,997,840 shares in partial payment of debt in conjunction with the $1,885,423 reduction of expense recorded in the financial statement ended June 30, 2003.

Note 8 - STOCKHOLDERS' EQUITY

The authorized common stock of the Company consisted of 100,000,000 shares with a par value of $0.001 per share. On July 2, 2003 the shareholders approved an increase to 200,000,000 shares.

In connection with the April 2003 financing, we issued 387,496 warrants for services rendered for financing expense.

In March 2003, the Company negotiated settlement of amounts due and amounts for future services to related parties for services rendered via issuance of 339,433 shares of common stock. As such, the Company recorded the fair value of the services received of approximately $273,796 in selling, general and administrative expenses, prepaid expenses and reduction of accounts payable in the accompanying audited consolidated statement of operations for the six months ended June 30, 2003. Also in March 2003, we received $50,000 for the exercise of 91,415 warrants in exchange for shares of common stock used for general operating expenses.

Note 9 - STOCK COMPENSATION

As of June 30, 2003, we have outstanding options to purchase 12,769,010 shares. The Company has elected to follow Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock options. Under APB No. 25, when the exercise price of employee stock options equals the market price of the underlying stock on the date of grant no compensation expense is recorded. The Company discloses information relating to the fair value of stock-based compensation awards in accordance with Statement of Financial Accounting Standards No.123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." The following table illustrates the effect on net loss and loss per share as if the Company had applied the fair value recognition provision of SFAS No. 123. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in the second quarter of 2003 and 2002, respectively: (1) average expected volatility of 162% and 150%, (2) average risk-free interest rates of 3.33%

12

and 6.00%, and (3) expected lives of five and ten years for the period ended June 30, 2003 and expected lives of five and eight years for the period ended June 30, 2002.

The pro forma amounts that are disclosed in accordance with SFAS No. 123 reflect the portion of the estimated fair value of awards that were earned for the three months ended June 30, 2003 and 2002.

For the three and six months ended June 30, (In thousands, except per share amounts)	Three Months 2003	Six Months 2003	Th
Net income (loss) applicable to common stockholders', as reported	$ 515,899	$ (1,889,592)	$
Adjust: Stock-based employee compensation expense determined under fair value method	(44,264)	(1,485,709)	
Pro forma net loss.	$ 501,518	(3,375,301)	$

Net loss per share applicable to common stockholders':			
Basic and diluted, as reported	$ 0.02	$ (0.06)	$
Basic and diluted, pro forma	$ 0.01	$ (0.10)	$

Note 10 - EFFECT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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. On January 31, 2003, eMagin adopted SFAS No. 143. The adoption of this standard did not have a significant impact on eMagin's 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 adopted SFAS No. 145 on January 1, 2003; the adoption had no effect on the financial results of the Company.

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.

13

eMagin adopted SFAS No. 146 as of January 1, 2003. Upon adoption of SFAS 146, there was no effect on its financial position, cash flows or results of operations.

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 April 30, 2003, the FASB issued Statement No. 149 ("SFAS No. 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement No. 133. In particular, this statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in Statement No. 133, and it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003 and is to be applied prospectively. The Company has not yet completed its analysis of SFAS No. 149 and, therefore, the effect on the Company's combined financial statements of the implementation of SFAS No. 149, when effective, has not yet been determined. On May 15, 2003, the FASB issued Statement No. 150 ("FAS No. 150"), Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. FAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). FAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments.

- mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets

- instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets; includes put options and forward purchase contracts

- obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares.

FAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. Most of the guidance in FAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not yet completed its analysis of SFAS No. 150 and, therefore, the effect on the Company's combined financial statements of the implementation of SFAS 150, when effective, has not yet been determined.

Note 11 - RECLASSIFICATIONS

Certain amounts in the June 30, 2002 financial statements have been reclassified to conform to the June 2003 classification. As of January 1, 2003 the Company has completed its development stage, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises". The financial statements results as of December 31, 2002 and

the period ended June 30, 2002 have been restated to reflect the current status.

NOTE 12 - SUBSEQUENT EVENTS

None

15

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 June 30, 2003, we had recognized approximately $3.0 million from sales of our products, and have a backlog of more than $27 million in products ordered for delivery through 2004.

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.

16

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

Our history has been as a developmental stage company. As of January 1, 2003, we are no longer a development stage Company. We have transitioned to manufacturing our product 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 SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO THREE AND SIX MONTHS ENDED JUNE 30, 2002

Revenues

Revenues for the three and six months ended June 30, 2003 were $0.3 million and $0.8 million, respectively, as compared to $0.3 million and $0.4 million for the three and six months ended June 30, 2002. Current year revenues consisted totally of product sales. The low revenue total was due primarily to the lack of operating

cashflow, which did not allow us to purchase the necessary raw materials in a timely manner in the first quarter of 2003. We ended the first quarter with a purchase agreement backlog of over $27 million primarily for delivery in late 2003 through 2005. There were no Government R&D contract revenues for the three and six months ended June 30, 2003, or the three and six months ended June 30, 2002. Government R&D contract revenues will remain significantly lower in 2003 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

Cost of Goods Sold. Cost of goods sold includes direct and indirect costs associated with production, inventory loss and outside commissions. Cost of goods sold for the three and six months ended June 30, 2003 was $0.1 million and $1.3 million, respectively. We were not in full production in 2002 and had no cost of goods sold to compare against. Gross profit (loss) was $0.2 million and ($0.5) million, respectively, for the three and six months ended June 30, 2003 due primarily to line stoppages resulting from lack of production materials as well as machinery downtime.

Research and Development. Research and development expenses for prior periods include salaries, development materials, equipment leases and depreciation expenses, electronics, rent, utilities and costs associated with operating the Company's manufacturing facility. In 2003, research and development expenses included salaries, development materials and other costs specifically allocated to the development of new products. Research and development expenses were $0.0 and $22 thousand, respectively, for the three and six months ended June 30, 2003 as compared to $3.3 million and $5.5 million respectively for the three and six months ended June 30, 2002. Of these amounts, the Company received $0 million in 2003, as compared to $0.2 million and $0.3 million for the three and six months ended June 30, 2002, respectively, in cost sharing from the U.S. Government. The $3.3 million and $5.5 million decrease in gross expenses for the three and six months ended June 30, 2003, as compared to the three and six months ended June 30, 2002, 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 and six months ended June 30, 2003 were $0.6 million and $1.8 million, respectively, as compared to $0.4 million and $3.4 million for the three and six months ended June 30, 2002. The $0.2 million increase in the three months ended June 30, 2003 as compared to the three months ended June 30, 2002, was a result of the rehiring of personnel laid-off in December of 2001. The $1.6 million decrease in the six months ended June 30, 2003 as compared to the six months ended June 30, 2002, was primarily due to the efforts of finding lower cost suppliers and equity agreements for professional fees, legal fees and insurance. 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 are non-cash expenses related to stock-based compensation amortization. Non-cash stock-based compensation expense for the three and six months ended June 30, 2003 was $0.1 million and $0.2 million, respectively, as compared to ($0.4) million and $0.9 million, respectively, for the three and six months ended June 30, 2002. The non-cash stock-based compensation expense for the three and six months ending June 30, 2003 increased by $0.5 million and decreased by $0.7 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.

Gain on payable forgiveness. The company has completed negotiations with various creditors. We have been mostly successful in obtaining lower negotiated payment requirements from our larger creditors. The company

18

has made the negotiated payments on its debt, using the funds from the April 2003 financing. A credit of $1,885,423 was recorded as a reduction of expense in the financial statements ended June 30, 2003 from these negotiations.

Amortization of Purchased Intangibles. There was no amortization and write down of purchased intangibles expense for the three months ended June 30, 2003 as compared to $0.1 million for the three months ended June 30, 2002. Amortization of purchased intangibles expense for the six months ended June 30, 2003 was $0.3 million, as compared to $0.7 million for the six months ended June 30, 2002. This is the result of the purchased intangibles being fully amortized by March 31, 2003.

Other Income (Expense). Other income (expenses) for the three and six months ended June 30, 2003 was $0.2 million and $0.2 million, respectively, as compared to $0.1 million and $20 thousand, respectively, for the three and six months ended June 30, 2002. The increase of $0.1 million and $0.2 million, respectively, in expense for this non-cash charge was due primarily to the sale of old, unused equipment. . The Company recorded the receipt of $0.2 million from the sale of old unused equipment.

Liquidity and Capital Resources

Current Financial Position

In April 2003, the Company closed on a $6 million financing (see Changes in Securities and Use of Proceeds, Part II Item - 2). We estimate that this $6 million financing is the minimum amount of funds that we require to support us until we begin realizing profits from production in sufficient amount to become profitable through production alone. As of August 12, 2003 we have received $4,725,000. No assurance can be given that our estimates will prove to be correct, 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.

During April 2003, eMagin reached agreements with certain creditors and these agreements were primarily conditioned upon actions to be taken and installment payments to be made by eMagin through June 30, 2003. After making these payments, eMagin recorded approximately $1.9 million in reduction of expenses in the financial statements ended June 30, 2003

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 production operations, purchase of inventory and expenses of increased sales and marketing efforts would be the principle uses of cash. 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 sales. We expect to continue to devote substantial resources to manufacturing, marketing and selling our products.

We have received purchase agreements for our products to be delivered now through 2004 and into early 2005. Management believes that the prospects for growth of product revenue remain high.

Our customer schedules have been necessarily pushed out due to our financing issues, but these shipments are being renegotiated now that the funding is committed. We do not currently anticipate any significant loss of business as a result of our prior financing related product ramp delays, other than the shift in out of delivery schedules. We must ramp our supplies and staffing quickly and efficiently to meet the anticipated shipping schedules. A significant level of effort will be required.

19

Initial orders for supplies were placed during the 2-3 weeks after the financing. A 3-month supply delivery schedule and one month in house production cycle is anticipated before shipments can begin ramping. Some earmarked supplies are already in hand for customers that provided prepayments for supplies in late 2002 and for small quantity deliveries. Initial supply orders will be modest until we insure our supplier quality is high after a long stagnant period of time. Continuous monthly orders of wafers, Circuit Boards, and other supplies are planned to insure a continuing product flow to customers, after the supplier re-qualification cycle.

We are in the early phases of production, although our progress has been impeded by our prior cash position. Anticipated increased shipments in the first quarter were delayed, primarily due to our inability to purchase raw materials. Based on the planned schedule, we should have resolved our supplier issues and be able to produce quantities in the late third quarter of 2003.

Our cash requirements depend on numerous factors, including completion of our product development activities, ability to commercialize our products, timely market acceptance of our products and our customer's product, and other factors. We expect to carefully devote 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. Any delays could change the cash requirements of the company. While we believe that we are in position to handle a significant production increase, there can be no assurance that we will not experience some issues relating to yield and throughput risk that could result in production delays.

Factors Which May Affect Future Results

In evaluating our business, prospective investors and shareholders should carefully consider the risks factors, any of which 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 auditors included an explanatory paragraph in their report on our financial statements for the year ended December 31, 2002 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 three months ended June 30, 2003 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 to cover these added losses, 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. 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.

The financing commitments provided in April 2003 substantially improves our probability of success, but there is no guarantee that any additional expenses or delays may not adversely effect our cash requirements beyond that provided by the recent financing. Any significant delay in revenue or increased expense could result in the default of the secured note agreement, which could result in a significant or total loss of any unsecured investments in eMagin.

We may not be able to satisfy The American Stock Exchange's (the "Exchange") continued listing requirements. To maintain the listing of our common stock on the Exchange, we are required to meet certain continued listing requirements, including, but not limited to, the requirement that our common stock not sell for a substantial period of time at a low price per share, the requirement that we maintain a minimum of $2 million in shareholder equity. 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. 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. If the Exchange were to determine that we were filing to satisfy the minimum shareholder equity standards, then we may be required to establish a plan to increase the shareholder equity to over $2 million. The financing that we completed in April 2003 was debt based, and did not directly increase shareholder equity. However, shareholder equity did improve through the related conversion of other debt to stock and through negotiated write-downs of debt. Nevertheless, there will still be a substantial gap remaining that may increase in subsequent quarters before it beings to improve. If this additional equity cannot be accomplished through operations, then it may be done through the sale of equity, which could result in additional dilution to existing shareholders. The failure to satisfy any Exchange concerns regarding the minimum equity standards could result in a delisting of our common stock from the Exchange. We are currently not in communication with any regulatory agencies concerning noncompliance with or deficiencies in financial reporting or other practices, except that we were recently required to submit a plan to the Exchange setting forth the action that we have taken, or will take, that will bring us into compliance within 18 months with the Exchange's continued listing standards relating to achieving and maintaining profitability and maintaining at least $2 million of shareholder equity. Other as yet unidentified issues may arise that could adversely affect the financial or the potential listing status of the company.

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 June 30, 2003, were $32.1 million and acquisition related non-cash transactions were $101.9 million, which resulted in an accumulated net loss of $134 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 were previously primarily 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 cannot continue

21

to rely on such contracts for revenue. 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 we will be successful in obtaining new government contracts. Our inability to obtain revenues from government contracts could have a material adverse effect on our results of long-term operations, unless substantial product or non-government contract revenue offsets any lack of government contract revenue, unless substantial product or non-government contract revenue offsets any lack of government contract revenue

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 at various times in the future. 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 properly protect our position or stay ahead of competition in new research and the protecting of the resulting intellectual property.

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. As an OEM supplier, our customer's products must also be well accepted. 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.

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 quantities. We expect to begin commercial production during 2003 and 2004 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 or a serious failure of a critical piece of equipment, 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. This is especially an issue while the company staffing is small. We will 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.

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. Our current purchase agreements can be cancelled or revised without penalty or a minimal penalty, depending on the circumstances. 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 may 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 such 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. Some customers in other countries have longer receivable periods or warranty periods. 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 plan to 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 June 30, 2003, we have outstanding options to purchase 12,769,010 shares. There are also outstanding warrants to purchase 14,359,101 shares of common stock. Conversion of the secured notes is not certain, even if the share price increases substantially. If the secured were to convert, they would result in additional outstanding common shares.

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.

ITEM 3: Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the chief executive officer, or CEO, who is also the acting chief financial officer, or CFO, of the effectiveness of the design and operation of our disclosure procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2003. There have been no significant changes in our internal control over financial reporting in the second quarter of 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

26

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings, except as described below.

On or about April 21, 2003, eMagin and IBM entered into a Stipulation in order to settle an eviction proceeding originally commenced by IBM against eMagin on or about April 9, 2003. Thereafter, in accordance with the Stipulation, on April 23, 2003 the Stipulation was presented to, and approved by, the court, and a Judgment was issued in favor of IBM. Pursuant to the Judgment and Stipulation, (i) eMagin paid IBM all rent due and owing to IBM, and (ii) IBM was awarded possession of the leased premises, was issued a warrant to remove eMagin from possession of the leased premises, and obtained a monetary judgment for rent arrears in the sum of Eight Hundred Thirteen Thousand Fifty Five and 65/100 ($813,055.65) Dollars, which sum is to be paid in equal monthly installments during the period commencing May 1, 2003 and ending on March 1, 2004.

Such Judgment is being held in escrow by IBM's attorney and the warrant of eviction is being stayed, so long as the Company continues to timely pay make the installment payments during the next 12 months and any additional rent and/or other sums due under the Lease.

On or about May 19, 2003, an action was commenced against the Company by Vertical Ventures Investments LLC in the Supreme Court of the State of New York, County of New York, Index No. 3601562/03. In this action, the plaintiff has asserted claims for the breach of a Registration Rights Agreement, and seeks compensatory damages against the Company in the amount of $1,500,000. The Company filed its answer on June 23, 2003 and has denied any and all wrongdoing. The Company intends to vigorously defend this matter. The parties are in the process of conducting discovery, but at this juncture, it is difficult to estimate the likelihood of any unfavorable outcome and estimate the amount or range of potential loss at this time.

Item 2. Changes in Securities and Use of Proceeds

On April 25, 2003, we entered into a global restructuring and secured note purchase agreement with a group of several accredited institutional and individual investors whereby the Investors agreed to lend us $6,000,000 in exchange for (i) the issuance of $6,000,000 principal amount of 9.00% secured convertible promissory notes due on November 1, 2005 and (ii) warrants to purchase an aggregate of 7,749,921 shares of common stock of eMagin (subject to certain customary anti-dilution adjustments), which Warrants are exercisable for a period of three (3) years.

Interest is payable on the notes at a rate of 9% per annum and, at our option, may be paid through the delivery of shares of our common stock (registered pursuant to the registration rights agreement referred to below) in lieu of cash interest payments. Subject to certain limitations, the notes may be converted, at the option of the holder, in whole or in part, into common shares with a conversion price equal to $0.7742 per share, 105% of the volume weighted average of the closing price of our common shares as reported on The American Stock Exchange by the Wall Street Journal, New York City edition, for the five (5) trading days immediately preceding the closing date (April 25, 2003). The exercise price of the warrants on a per share basis is $.8110, an amount equal to 110% of the volume weighted average of the closing price of our common shares as reported

27

on The American Stock Exchange by the Wall Street Journal, New York City edition, for the five (5) trading days immediately preceding the closing date (April 2003).

As part of the transactions, the existing the holders of an aggregate of $1,625,000 principal amount of secured notes that were purchased pursuant to a secured note purchase agreement entered into as of November 27, 2001, and the holder of a $200,000 principal amount secured note that was purchased pursuant to a secured note purchase agreement entered into as of June 20, 2002, agreed to (a) amend their respective notes issued to them, (b) terminate the respective security agreements dated November 20, 2001 and June 20, 2002 that were entered into in connection with the purchase of their notes and allow the new investors to enter into a new security agreement with them on a pari passu basis in order for eMagin to continue its operations as a developer of virtual imaging technology, and (c) simultaneously participate in this new round of financing (subject to the terms and conditions set forth in the April 2003 secured note purchase agreement). The amendments to the notes included (i) amending the note issued on June 20, 2002 so as to provide that the note shall be convertible and will have the same conversion price as the notes issued pursuant to the April 2003 secured note purchase agreement, (ii) extending the maturity dates of the notes from June 30, 2003 to November 1, 2005, and (iii) revising and clarifying certain of the other terms and conditions of the notes, including provisions relating to interest payments, conversions, default and assignments of the notes.

In connection with the completion of the transactions under the April 2003 securities purchase agreement, we also entered into a security agreement with the Investors dated as of April 25, 2003, and a registration rights agreement dated as of April 25, 2003 providing the investors with certain registration rights under the Securities Act of 1933, as amended, with respect to our common stock issued or issuable in lieu of cash interest payments on the notes, upon conversion of the notes and/or exercise of the warrants.

In addition to the foregoing, as a condition to and simultaneously with the closing of the transaction pursuant to the secured note purchase agreement,

certain holders of our convertible notes agreed to convert approximately $4.9 million of notes and accrued interest into shares of our common stock, subject to a "lock up" arrangement allowing only limited sales through private transactions for their remaining shares through December 31, 2003. Specifically, The Travelers Insurance Company agreed to convert their $1 million convertible note plus related interest into our common stock at a conversion price of approximately $0.53 per share, and SK Corporation has agreed to convert its $3 million convertible note and accrued interest into our common stock at an approximate conversion price of approximately $1.28 per share. As further conditions to the closing of the transaction pursuant to the secured note purchase agreement, we have also entered into settlement or restructuring agreements with certain of our other creditors to whom we owed approximately $5.2 million of current payables, pursuant to which the creditors have agreed to accept shares of our common stock in full or partial satisfaction of the amount owed to them, or which allow us to either make discounted payments to them or to make payments under more favorable payment terms than previously were in place.

The issuance of the shares and the warrants was exempt from registration requirements of the Securities Act of 1933 pursuant to Section 4(2) of such Securities Act and Regulation D promulgated thereunder based upon the representations of each of the Investors that it was an "accredited investor" (as defined under Rule 501 of Regulation D) and that it was purchasing such securities without a present view toward a distribution of the securities. In addition, there was no general advertisement conducted in connection with the sale of the securities.

Item 3. Defaults Upon Senior Securities

As of the date of the final tranche closing related to the April 2003 financing, we were in violation of one of the representations and warranties contained in the Note Purchase Agreement, which violation may be deemed to constitute a default under the promissory notes issued in connection with the April 2003 financing. Such

28

violation relates to the litigation commenced by Vertical Ventures. We are in the process of seeking to obtain a forbearance from a majority in interest of the investors in the April 2003 Financing pursuant to which they will agree not to enforce their remedies for such event of default.

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

None.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification by Chief Executive Officer and Acting Chief Financial Officer pursuant to Sarbanes -Oxley Section 302.
32.1	Certification by Chief Executive Officer and Acting Chief Financial Officer and pursuant to 18 U.S. C. Section 1350

(b) Reports on Form 8-K

The Company filed three reports on form 8-K during the quarter ended June 30, 2003. Information regarding the items reported on is as follows:

DATE OF REPORT	ITEM REPORTED ON
April 28, 2003	Disclosed that eMagin had completed a $6 million financing as of A 2003, and that the holders of its Convertible Promissory Note and Convertible Notes that were set to mature on June 30, 2003 had either a convert their debt into equity of the Company or had agreed to ext maturity date of their Notes to November 1, 2005. Disclosed that eMagin into a registration agreement with investors above investors.
June 11, 2003	Gary W Jones, President and CEO of eMagin Corporation entered into a trading plan relating to the future sales of part of his shares of common stock. This plan is intended to enable Mr. Jones to sell share period of time without unduly effecting the market. This plan has a ter months and expires on December 12, 2003.
June 23, 2003	Gary W. Jones terminated his trading plan from June 11, 2003.

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: August 19, 2003

By:/s/ Gary W. Jones

Gary W. Jones
Chief Executive Officer and
Acting Chief Financial Officer