EMAGIN CORP
Form 10-Q/A
November 21, 2002

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

FORM 10-Q/A

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

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

Commission file number: 000-24757

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

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

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Not applicable

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 15, 2002 the Registrant had 30,294,980 shares of Common Stock outstanding.

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

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PART I. FINANCIAL INFORMATION

The financial statements set forth below, along with filings for prior quarters, are currently undergoing review by the Company's recently retained independent public accountants, Grant Thornton LLP. The Company intends to make additional or supplemental disclosure, if any, if such disclosure is indicated by such review.

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eMAGIN CORPORATION
(a development stage corporation)
CONSOLIDATED BALANCE SHEETS

ASSETS	Sept ---- (un
CURRENT ASSETS:	
Cash and cash equivalents	
Contract receivables	
Unbilled costs and estimated profits on contracts in progress	
Inventory	
Prepaid expenses and other current assets	

Total current assets	
Equipment and leasehold improvements, net of accumulated depreciation of $1,419,437 and $1,122,989, respectively	
Goodwill and purchased intangibles, net of accumulated amortization of $662,898 and $50,032,701, respectively	
Other long-term assets	

Total assets	2
	====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	6
Accrued payroll and benefits	
Current portion of long-term debt	
Deferred Revenue	
Other short term debt	2
Advance payments on contracts to be completed	
Other current liabilities	

Total current liabilities	11

LONG-TERM DEBT	2
SHAREHOLDERS' EQUITY:	
Common Stock, par value $0.001 per share	
Shares authorized - 100,000,000	
Shares issued and outstanding - 30,294,980 and 25,171,183	
Additional paid-in capital	120
Deferred compensation	
Deficit accumulated during the development stage	(130

Total shareholders' equity	(11

Total liabilities and shareholders' equity	2
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eMAGIN CORPORATION
(a development stage corporation)
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three-Months ended September 30, 2

CONTRACT REVENUE:	
Contract revenue	$18,1
Product sales	472,5
Total revenue	$490,7
COSTS AND EXPENSES:	
Research and development, net of funding under cost sharing arrangements of $346,449and $846,734 respectively	$1,362,1
Amortization and write-down of purchased intangibles	
Acquired in-process research and development	
Write-down of goodwill and purchased intangibles	
Non-cash charge for stock-based compensation	485,7
Selling, general and administrative	2,113,0
Total costs and expenses, net	$3,960,9
OTHER (EXPENSE)/ INCOME	(578,5
Loss before provision for income taxes	(4,048,7
PROVISION FOR INCOME TAXES	
Net loss	($4,048,7
Basic and diluted net loss per common share	(.
Basic and diluted weighted average common shares outstanding	30,294,9

See selected notes to financial statements.

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

Nine-Months	Nine-

	Ended September 30, 2002	En Septem 2
CONTRACT REVENUE		
Contract revenue	$50,284	$4,33
Product revenue	902,045	49
Total Revenue	$952,329	$4,82
COST AND EXPENSES		
Research and development, net of funding under cost of sharing arrangements of $356,798, $1,205,107and $3,258,210 respectively	$5,076,418	$9,90
Amortization and write-down of goodwill and purchased intangibles	662,898	49,70
Acquired in-process research and development		
Non-Cash charge for stock-based compensation	2,627,837	2,18
Selling, general, and administrative expense	5,043,818	5,73
Total costs and Expenses Net	$13,410,971	$67,52
OTHER (EXPENSE)/INCOME	(1,672,193)	(21
Loss before provision for income taxes	(14,130,835)	(20,54
PROVISION FOR INCOME TAXES	0	
Net Loss	($14,130,835)	($62,91
Basic and diluted net loss per common share	($.49)	(
Basic and diluted weighted average common shares outstanding	29,099,905	25,07

See selected notes to financial statements.

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

	Nine Months	Nine Mo

	ended Sept 30, 2002	ende Sept 30,
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($14,130,835)	($62,9
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	1,005,413	50,1
Write-down of goodwill and purchased intangibles	-	
Loss on disposal of assets	-	
Non-cash charge for stock based compensation	2,627,837	2,1
Non-cash interest related charges	1,037,335	
Non-cash related to issuance of warrants		1
Non-cash charge for services received	307,657	
Non-cash charge due to beneficial conversion	-	
Acquired in-process research and development	-	
Changes in operating assets and liabilities, net of acquisition:		
Contract receivables	279,379	1
Unbilled costs and estimated profits on contracts in progress	191,953	2
Inventory	25,120	(
Prepaid expenses and other current assets	124,043	3
Other long-term assets	4,469	(
Advanced payment on contracts to be completed	(198,362)	2
Deferred Revenue	10,071	(1
Accounts payable, accrued expenses and accrued payroll	2,937,190	1,7
Other current liabilities		(1
Net cash used in operating activities	(5,778,730)	(7,9
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(66,075)	(4
Net proceeds from acquisition	0	
Net cash used in investing activities	(66,075)	(4
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock, net of issuance costs	3,954,509	
Proceeds from exercise of stock options and warrants	887	
Proceeds from long and short term debt	1,443,478	4,0
Payments of long term debt and capital leases	(195,284)	(1
Net cash provided by financing activities	5,203,590	3,8
NET INCREASE IN CASH AND CASH EQUIVALENT'S	(641,215)	(4,6
CASH AND CASH EQUIVALENTS, beginning of period	738,342	7,3
CASH AND CASH EQUIVALENTS, end of period	97,127	2,7

See selected notes to financial statements.

eMAGIN CORPORATION
Selected Notes to Unaudited Consolidated Financial Statements

THE COMPANY'S FINANCIAL STATEMENTS WERE NOT REVIEWED BY CERTIFIED PUBLIC ACCOUNTANTS. The financial statements set forth below, along with filings for prior quarters, are currently undergoing review by the Company's recently retained independent public accountants, Grant Thornton LLP. The Company intends to make additional or supplemental disclosure, if any, if such disclosure is indicated by such review.

Note 1 - BASIS OF PRESENTATION

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Certain information or footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented. The results of operations for the period ended September 30, 2002 are not necessarily indicative of the results to be expected for the full year. It has been our practice to have our quarterly results reviewed by independent public accountants, even when such results are labeled as Unaudited. As indicated in the legend preceding the financial statements, review of the results reported herein are currently undergoing review by our newly retained independent public accountants, Grant Thornton LLC, but these statements have not yet been reviewed. In the review and transition from Arthur Anderson to the new independent accounting firm, it is possible that Grant Thornton may recommend restatement of any of our past or current financial statements.

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.

The Company continues to be a development stage company, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises", as it continues to devote substantially all of its efforts to establishing a new business, and it has not fully commenced its planned principal operations. Revenues earned by the Company in prior years were primarily related to research and development type contracts which partially funded the development of the Company's current technology and specialized military products. The company's principal operations are commercialization of products using organic light emitting diode (OLED) technology and sales of display products were the primary source of revenue this quarter. A weak cash position limited the Company's ability to order supplies and cover receivables, among other issues, which resulted in a lower rate of shipment volume than would otherwise have been possible.

Note 3 - FED ACQUISITION

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

Note 4 - 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.

Note 5 - 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 6 - NET LOSS PER COMMON SHARE

In accordance with SFAS No. 128, net loss per common share amounts ("basic EPS") were computed by dividing net loss by the weighted average number of common shares outstanding and excluding any potential dilution. Net loss per common share assuming dilution ("diluted EPS") was computed by reflecting potential dilution from the exercise of stock options and warrants. Common equivalent shares have been excluded from the computation of diluted EPS as their effect is antidilutive.

Note 7 - DEBT

On June 20, 2002, the Company entered into a $0.2 million Secured Note Purchase Agreement with an Investor. The secured note accrues interest at 11% per annum and matures on August 30, 2002. The Company also granted warrants, exercisable for a period of three years, to purchase 300,000 shares of common stock with an exercise price of $0.4419 per share to the investor.

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.

A lease agreement for semiconductor manufacturing equipment exists with Finova Capital that is significantly past due. In this lease agreement, eMagin is currently obligated to a total amount of $3,582,705.90 plus a per diem charge of $816.83 for each day the obligation remains unpaid beyond August 8. 2002. A restructuring agreement has been reached contingent upon a financing, that the lease payments will be extended into the future and a part of the obligation will convert to equity, but there is no guarantee that such a financing or a restructuring of this lease will occur.

Note 8 - STOCKHOLDERS' EQUITY

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

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

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock to FED shareholders, and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, based on the difference between the fair value and the exercise price of said equity instruments and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the fair value of assets acquired and liabilities assumed.

In April 2002, the Company announced a strategic investment from ROHM Company LTD. ROHM purchased 1,282,051 shares of eMagin Common Stock at $0.78 per share as well as warrants to purchase an additional 512,820 shares of Common Stock at a conversion price of $0.85 per share for an investment of $1,000,000. Such warrants are exercisable through April 2005.

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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 November 15, 2002, we had recognized over $2 million from sales of our products, and have a backlog of more than $10 million in products ordered for delivery through 2003. We have more than $20 million in signed letters of intent for display purchases through mid-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.

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

Company History

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

At our annual meeting of stockholders held on July 16, 2001, the stockholders approved the reincorporation of eMagin Corporation as a Delaware corporation. The reincorporation became effective on July 16, 2001 by merging eMagin Corporation, a Nevada corporation ("eMagin-Nevada"), into its then wholly owned subsidiary, eMagin Corporation, a Delaware corporation (formerly known as FED Corporation as described above) ("eMagin-Delaware"). Upon completion of this merger, eMagin-Nevada ceased to exist as a corporate entity and eMagin-Delaware succeeded to the assets and liabilities of eMagin-Nevada. Under the merger agreement for the reincorporation, each outstanding share of eMagin-Nevada common stock was automatically converted into one share of eMagin-Delaware common stock at the time the merger became effective. There has been no interruption in the trading of our common stock as a result of the reincorporation. The reincorporation also resulted in the implementation of a new certificate of incorporation and by-laws for the Company, as the existing certificate of incorporation and by-laws of eMagin-Delaware continues as the certificate of incorporation and by-laws of the Company and has replaced the articles of association and by-laws of eMagin-Nevada. No change in the corporate name, board members, business, management, fiscal year, assets, liabilities, employee benefit plans or location of principal facilities of eMagin occurred as a result of the reincorporation.

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

Negotiations to reduce debt, payables, and leases have been progressing. Resolution of these issues will be contingent upon eMagin resolving its current limited cash situation. There is no assurance that such restructuring will ultimately be successful.

eMagin's Chief Financial Officer departed from the Company in August , 2002, and the Company has not yet engaged a replacement. As a result of increased cash flow in the Fourth Quarter of 2002, eMagin was able to hire an external accounting company to review the Company's financials and to help work with the Company's newly engaged external auditors, Grant Thornton, in the financial review. This effort was not completed by the required filing deadline, but is now progressing. eMagin anticipates identifying and hiring a new Chief Financial Officer and Controller.

Results of Operations

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

THE COMPANY'S FINANCIAL STATEMENTS WERE NOT REVIEWED BY CERTIFIED PUBLIC ACCOUNTANTS. The financial statements set forth below, along with filings for prior quarters, are currently undergoing review by the Company's recently retained independent public accountants, Grant Thornton LLP. The Company intends to make additional or supplemental disclosure, if any, if such disclosure is indicated by such review.

Revenues

Revenues for the three months and nine months ended September 30, 2002 were $0.5 million and $1.0 million, respectively, as compared to $1.2 million and $4.8million respectively, for the three months and nine months ended September 30, 2001. Current year revenues consist primarily of product sales and increased by $0.2 million and $0.4 million for the three months and nine months ended September 30, 2002, respectively, as compared to the three months and nine months ended September 30, 2001. As of November 15, 2002, we had recognized over $2 million from sales of our products, and have a backlog of more than $10 million in products ordered for delivery through 2003 and more than $20 million in signed letters of intent for display purchases through mid-2004. Government R&D contract revenues decreased by $.9 million and $4.3 million for the three months and nine months ended September 30, 2002, respectively, as compared to the three months and nine months ended September 30, 2001. Government R&D contract revenues will remain significantly lower in 2002 as the company focuses on product revenues rather than performing Government R&D contracts, although product revenues include sales to government contractors which are funded by Government development or procurement contracts.

Costs and Expenses

Research and Development. Research and development expenses include salaries, development materials, equipment lease and depreciation expenses, electronics, rent, utilities and costs associated with operating the Company's manufacturing facility. Gross research and development expenses for the three months and nine months ended September 30, 2002 were $1.7 million and $5.4 million, respectively. For the same period in 2001, the Company's gross research and development expenses were $3.6 million and $11.1 million, respectively. The $1.9 million and $5.7 million decrease in gross expenses for the three months and nine months ended September 30, 2002, as compared to the three months and nine months ended September 30, 2001 reflects reduction in staffing and reduction in expenditures related to the company's difficult cash position.

Selling, General and Administrative. Selling, general and administrative expenses consist principally of salaries and fees for professional services, legal fees incurred in connection with patent filings and related matters, amortization, as well as other marketing and administrative expenses. Selling, general and administrative expenses, for the three months and nine months ended September 30, 2002 were $2.1 million and $5.0 million, respectively, as compared to $1.9 million and $5.7 million for the three months and for the nine months ended September 30, 2001. The increase of $0.2 million and the decrease of $0.7 million in selling, general and administrative expenses was primarily due to decreases in personnel costs, patent filings, and legal fees. We expect marketing, general and administrative expenses to increase in future periods as we add to our sales staff and make additional investments in marketing activities.

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Amortization of Purchased Intangibles. Amortization and write down of purchased intangibles expense for the three months and nine months ending September 30, 2002 was $0.0 million and $0.7 million respectively as compared to $38 million and $50 million for the three months and nine months ended September 30, 2001. The decrease of $38 million and $49 million in these non-cash charges, is the result of the prior year's write-down of the balance in purchased intangibles and goodwill and its impact on future years' amortization.

Non-Cash Expense Related To Stock-Based Compensation Amortization, Non-cash stock-based compensation expense for the three and nine months ending September 30, 2002 were $0.5 million and $2.6 million, respectively, as compared to $0.7 million and $2.2 million for the three months and nine months ended September 30, 2001. The non-cash stock-based compensation expense for the three and nine months ending September 30, 2002 decreased by $0.2 million and increased $0.4 million. Non-cash stock-based compensation costs are the result of the issuance of stock options at below fair market values.

Other Income (Expense). Other income (expenses) for the three months and nine months ending September 30, 2002 was ($0.6) million and ($1.7) million expense. The decrease of $0.3 million in expense for this non-cash charge was due primarily to the increase in debt discount from the beneficial conversion of a bridge loan entered into by the company

Liquidity and Capital Resources

Current Financial Position and Need for Additional Financing

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

We had cash and cash equivalents of $1.7 million as of March 31, 2002, $0.1 million as of June 30, 2002 and $0.1 million as of September 30, 2002. Our monthly fixed costs have historically been approximately $1.0 million, but have been reduced during the past quarter and are expected to be reduced further pending successful restructuring of leases and debt. In addition, $3.2 million of outstanding indebtedness plus accrued interest is due on November 30, 2002. We cannot assure you that our lenders will agree to reschedule or renegotiate the terms of this indebtedness before it becomes due. As of September 30, 2002, another significant portion of our working capital deficit consisted of approximately $4.8 million in accounts payable. A substantial portion of this amount is past due and owed to leasing companies and law firms. We are currently engaged in discussions regarding rescheduling payment terms and renegotiating balances due with our major creditors. . If the company resolves its seriously current weak cash position and following the settlement of certain restructuring expenses and supply purchases, the company should have improved fixed operating costs.

Subject to available funding, we currently anticipate that our operating expenses will be the principal use of our cash as we scale up production. In particular, we expect that salaries for employees engaged in manufacturing operations, purchase of inventory and expenses of increased sales and marketing efforts will be the principle uses of additional cash that we raise during the remainder of 2002. Until we raise sufficient funding to manufacture our products and until our inventory procurement and our manufacturing processes are stabilized, which we expect will take approximately three to six months after any funding, we may experience difficulties in making timely product shipments to all of our customers. After our urgent cash needs are addressed, we expect that our cash requirements over the next 12 months, will be met by a combination of additional equity or debt financing, and revenues generated by the sales. We expect to continue to devote substantial resources to manufacturing, marketing and selling our products.

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Substantially all of our revenues to date have been derived from research and development contracts with the U.S. federal government. We received revenues from government contracts of $50,000 for the nine months ended September 30, 2002, $5.0 million for the year ended December 31, 2001, and $2.6 million for the year ended December 31, 2000. These figures do not include our government contracts in which we provided a cost-share. The government may terminate our contracts at its discretion. We plan to submit proposals for additional development contract funding; however, funding is subject to legislative authorization and even if funds are appropriated, they may be withdrawn based on changes in government priorities.

We have received increased orders for our products during the third quarter of 2002, and we believe that customer interest remains high. The company ended the third quarter with a backlog of over $10 million in purchase orders and purchase agreements. We are in discussion for additional orders and we have formal letters of intent for over $20 million in additional sales during the next 18 months. An improved cash position is required for the company to be able to deliver on these opportunities. We are in the early phases of production, although our progress has been impeded by our current cash position. Anticipated increased shipments in the second and third quarters were delayed, primarily due to certain supply delays, even though base displays were prepared. These components were received behind schedule in July, and shipments resumed. However, our cash position has resulted in reductions in supplies and manufacturing staff availability.

Our cash requirements depend on numerous factors, including the level of our product development activities, ability to commercialize our products, market acceptance of our products and other factors. Subject to successful debt restructuring, in the long term we expect to devote substantial capital resources to continue our development programs directed at commercializing our products in our target markets, hire and train additional staff, expand our research and development activities, develop and expand our manufacturing capacity and begin production activities. Through September 30, 2002 we have incurred accumulated losses of approximately $130.8 million since our inception and we anticipate incurring significant losses as we fund our growth. Since inception we have financed our operations through private placements of equity securities, research and development contracts and borrowings. As of September 30, 2002, we had $0.1 million in cash and cash equivalents and have a working capital deficit of $10.4 million. In December 2001 and July 2002, we took certain actions to reduce our workforce due to our difficult working capital constraints.

Net cash used in operating activities was $5.8 million for the nine months ended September 30, 2002. Cash used in operating activities resulted primarily from our net loss partially offset by increases from non-cash charges. Cash used in operating activities for the nine months ended September 30, 2001 was $3.3 million resulting primarily from operating losses.

Net cash used by investing activities was $0.2 million for the nine months ended September 30, 2002, all of which was used for capital expenditures. Net cash used by investing activities for the nine months ended September. 30, 2001 was $0.2 million, which was used for capital expenditures.

Net cash provided by financing activities was $5.2 million for the nine months ended September 30, 2002, and consisted primarily of proceeds from sale of equity and the issuance of debt. Net cash used by financing activities was $.1 million for the nine months ended September 30, 2001 year, and consisted primarily of cash payments on long-term debt and capital assets

Factors Which May Affect Future Results

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

Risks Related To Our Financial Results

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

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

We may not maintain The American Stock Exchange (the "Exchange") listing requirements. To maintain the listing of our common stock on the Exchange, we are required to meet certain listing requirements, in the case of our common stock selling for a substantial period of time at a low price per share. In its review of whether a share price is too low or whether a reverse split is appropriate, the Exchange will consider all pertinent factors, including market conditions in general, the number of shares outstanding, plans which may have been formulated by management, applicable regulations of the state of incorporation or of any governmental agency having jurisdiction over eMagin, and the relationship to other Exchange policies regarding continued listing. If the Exchange were to determine that our share price is too low and that we should reverse split our shares but we were unable to comply for any reason, our common stock may be delisted from the Exchange. In addition, the financial statements set forth in this Quarterly Report on Form 10-Q have not been reviewed by independent public accountants as required by Item 10-01(d) of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. As result, this report is not in compliance with the rules and regulations of the Securities and Exchange Commission. Delisting of our common stock could materially adversely affect the market price, the market liquidity of our common stock and our ability to raise necessary capital. Moreover, it would likely be more difficult to trade in or to obtain accurate quotations as to the market price of our common stock.

We have a history of losses since our inception and expect to incur losses for the foreseeable future. Accumulated losses excluding non-cash transactions as of September 30, 2002, were $38.4 million and acquisition related non-cash transactions were $92 million, which resulted in an accumulated net loss of $130.8 million, the majority of which was related to the March 2000 merger and its subsequent write-down of its goodwill. The non-cash losses were dominated by the amortization and write-down of goodwill and purchased intangibles and write-down of acquired in process research and development related to the March 2000 acquisition, and also included some non-cash stock-based compensation. We have not yet achieved profitability and we can give no assurances that we will achieve profitability within the foreseeable future as we fund operating and capital expenditures in areas such as establishment and expansion of markets, sales and marketing, operating equipment and research and development. We cannot assure investors that we will ever achieve or sustain profitability or that our operating losses will not increase in the future.

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

Risks Related To Our Intellectual Property

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

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

Risks Related To the Microdisplay Industry

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

The microdisplay systems business is intensely competitive. We do business in intensely competitive markets that are characterized by rapid technological change, changes in market requirements and competition from both other suppliers and our potential OEM customers. Such markets are typically characterized by price erosion. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share. Our ability to compete successfully will depend on a number of factors, both within and outside our control. We expect these factors to include the following: our success in designing, manufacturing and delivering expected new products, including those implementing new technologies on a timely basis; our ability to address the needs of our customers and the quality of our customer services; the quality, performance, reliability, features, ease of use and pricing of our products; successful expansion of our manufacturing capabilities; our efficiency of production, and ability to manufacture and ship products on time; the rate at which original equipment manufacturing customers incorporate our product solutions into their own products; the market acceptance of our customers' products; and product or technology introductions by our competitors. Our competitive position could be damaged if one or more potential OEM customers decide to manufacture their own microdisplays, using OLED or alternate technologies. In addition, our customers may be reluctant to rely on a relatively small company such as eMagin for a critical component. We cannot assure you that we will be able to compete successfully against current and future competition, and the failure to do so would have a materially adverse effect upon our business, operating results and financial condition.

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

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

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

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

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

Risks Related To Manufacturing

We expect to depend on semiconductor contract manufacturers to supply our silicon integrated circuits and other suppliers of key components, materials and services. We do not manufacture our silicon integrated circuits on which we incorporate the OLED. Instead, we expect to provide the design layouts to semiconductor contract manufacturers who will manufacture the integrated circuits on silicon wafers. We also expect to depend on suppliers of a variety of other compon-ents 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 inte-grated circuits or other necessary components, materials or services on a timely basis could result in manu-facturing delays, increased costs and ultimately in reduced or delayed sales or lost orders which could materially and adversely affect our operating results.

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

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

Risks Related To Our Business

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

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

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

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

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

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

We will need to obtain additional financing, which may not be available on suitable terms, and as a result our ability to grow or continue existing operations may be limited. Our future liquidity and capital requirements are difficult to predict because they depend on numerous factors, including our success in completing the development of our products, manufacturing and marketing our products and competing technological and market developments. We may not be able to generate sufficient cash from our operations to meet additional working capital requirements, support additional capital expenditures or take advantage of acquisition opportunities. In addition, substantial additional capital may be required in the future to fund product development and product launches. No assurance can be given that additional financing will be available or that, if available, such financing will be obtainable on terms favorable to our shareholders or us. To the extent we raise additional capital by issuing equity or securities convertible into equity, our current shareholders will suffer dilution in ownership. If needed capital is unavailable, our ability to continue to operate and grow our business could be adversely affected. Even if capital is available at acceptable cost, we might not be able to manage growth effectively.

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

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

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

Risks Related To Our Stock

The substantial number of shares that are or will be eligible for sale could cause our common stock price to decline even if the Company is successful. Sales of significant amounts of common stock in the public market, or the perception that such sales may occur, could materially affect the market price of our common stock. These sales might also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. As of September 30, 2002, we have outstanding options and warrants to purchase 17,778,222 shares; some are currently locked-up due to contractual restrictions. The restrictions on the sale of the remaining shares will lapse between February 1, 2002 and January 7, 2003.

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

Our principal stockholders, officers and directors will own a significant voting interest in our voting stock. Current directors and officers of eMagin

Corporation or their affiliates beneficially own a large percentage of our outstanding common stock. If these shareholders were to vote together, they could significantly influence the outcome of items that are submitted to a vote of the share-holders including the election of our directors.

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

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

Our share price is likely to be highly volatile which may result in substantial losses for investors. Share price volatility may subject us to securities class action litigation. Prices and trading volume for technology related stock has been highly volatile. Accordingly, our stock prices are likely to also be highly volatile. Shareholders may experience a decrease in the value of their common stock regardless of our operating performance or prospects. In addition, the trading price of our common stock could be subject to wide fluctuations in response to: our perceived prospects; quarter to quarter variations in our operating results; changes in earnings estimates or recommendations by securities analysts and market perceptions of our operating results in relation to those estimates or recommendations; changes in market valuation of companies in the microdisplay systems industry; announcements of technological innovations or new products by us or our competitors; economic, political, and issues associated with our customers, suppliers, partners, accountants, governmental agencies in the USA and elsewhere, or other parties; sales of shares by other shareholders; and general conditions in the personal products industries or stock market conditions. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their share price. Those companies, like us, that are involved in rapidly changing technology markets are particularly subject to this risk. This type of litigation, if instituted against us, could result in substantial costs and divert our management's attention and resources, which could cause serious harm to our business.

ITEM 3: QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

Foreign Currency Exchange Risk

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

ITEM 4. CONTROLS AND PROCEDURES

We are in the process of performing an evaluation with the participation of our management, including our Chief Executive Officer (CEO), of the effectiveness of the design and operation of our disclosure controls and procedures as part of our review with new external auditors, Grant Thornton LLP. Although we believe that our disclosure controls and procedures are effective, as part of our review it is reasonably likely that we will modify some of our disclosure controls and procedures to conform to Grant Thornton's methodology. At this time there have been no significant changes in our internal controls or other factors that could significantly affect internal controls subsequent to September 30, 2002.

PART II--OTHER INFORMATION

Item 5. Other Information

(none)

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits List

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

(b) Reports on Form 8-K

DATE OF REPORT	ITEM REPORTED ON

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

DATE OF REPORT	ITEM REPORTED ON
August 6, 2002	On Form 8-K, under item 5, eMagin disclosed that Arthur Andersen LLP ("Arthur Andersen") that it had terminated its relationship with Arthur Andersen.
August 21, 2002	On Form 8-K, the Company disclosed that it had issued 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.
September 3, 2002	On Form 8-K, under item 5, eMagin disclosed an extension of The Travelers Company Convertible Promissory Note, the Sackler Secured Note, the Ginola Limited Secured Note, and the Jack Rivkin Secured Note from August 30, 2002 to October 31, 2002.
September 24, 2002	On Form 8-K/A, eMagin disclosed that it had engaged Grant Thornton LLP to serve as the Company's independent auditors.

SIGNATURES

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

eMAGIN CORPORATION

Dated: November 19, 2002

By: /s/ Gary W. Jones

Gary W. Jones

Chief Executive Officer