EMAGIN CORP
Form 10-K/A
October 11, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K /A

Amendment No. 1

R ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGEACT OF 1934

For the fiscal year ended December 31, 2009

or

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

Commission file number 001-15751

eMAGIN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	56-1764501 (I.R.S. Employer Identification No.)

3006 Northup Way, Suite 103, Bellevue, Washington 98004
(Address of principal executive offices)

(425) 284-5200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.001 Par Value Per Share

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes £ No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No R

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R

No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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

Large accelerated filer £ Accelerated filer £ Non-accelerated filer £ Smaller Reporting Company R

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

As of June 30, 2009, the aggregate market value of the issued and outstanding common stock held by non-affiliates of the registrant, based upon the closing price of the common stock as quoted on the National Association of Securities Dealers Inc. OTC Bulletin Board of $1.09 was approximately $12.1 million. For purposes of the above statement only, all directors, executive officers and 10% shareholders are assumed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

Number of shares of common stock outstanding as of February 28, 2010 was 17,073,558.

DOCUMENTS INCORPORATED BY REFERENCE – None

eMAGIN CORPORATION

FORM 10-K /A

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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EXPLANATORY NOTE

This Amendment No. 1 hereby amends our Annual Report on Form 10-K (“Form 10-K/A”) for the year ended December 31, 2009 which was originally filed with the Securities and Exchange Commission on March 25, 2010 (the “Original 10-K”). This amendment is being filed mainly to include restated consolidated financial statements as described in Note 18, Restatement, of the Notes to the Consolidated Financial Statements. The consolidated financial statements are being restated to correct accounting errors as follows:

Adoption of certain provisions of Accounting Standards Codification (“ASC”) 815 – “Derivatives and Hedging – Contracts in Entity’s Own Equity” (“ASC 815”) (formerly EITF 07-5, “Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity’s Own Stock”). ASC 815 became effective January 1, 2009. The anti-dilution features in certain outstanding warrants (“Warrants”) of the Company require these Warrants to be accounted for as liabilities and measured at fair value. The restated consolidated financial statements reflect the reclassification of the Warrants from shareholders’ equity to warrant liability, the cumulative effect adjustment to the opening balance of accumulated deficit and record changes in the fair value of the warrant liability in the consolidated statements of operations.

Adoption of the two-class method for Earnings Per Share (“EPS”) calculation under ASC 260, “Earnings Per Share” (“ASC 260”). The two-class method is an earnings allocation method under which EPS is calculated for each class of common stock and participating security. Under the two-class method, securities that participate in dividends, such as the Company’s Series B Convertible Preferred stock, are considered ‘participating securities.” The restated financial statements reflect the restated basic and diluted earnings per share, as applicable, and weighted average shares outstanding calculations.

The following sections of this Form 10-K/A have been amended to reflect the restatement:

Part I – Item 1A – Risk Factors
Part II – Item 6 – Selected Financial Data
Part II – Item 7 – Management’s Discussion and Analysis of Financial Condition and Result of Operations
Part II – Item 8 – Financial Statements and Notes to the Consolidated Financial Statements
Part II – Item 9A – Controls and Procedures

For the convenience of the reader, this Form 10-K/A sets forth the Company’s Original 10-K in its entirety, as amended by, and to reflect the restatement as described above. Except as discussed above, the Company has not modified or updated disclosures presented in this Amendment. Accordingly, this Amendment does not reflect events occurring after the Original 10-K or modify or update those disclosures affected by subsequent events, except as specifically referenced herein. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the Original Filing.

This Form 10-K/A has been signed as of a current date and all certifications of the Company’s Chief Executive Officer/Principal Executive Officer and Chief Financial Officer/Chief Accounting Officer and Principal Financial Officer are given as of a current date. Accordingly, this Form 10-K/A should be read in conjunction with the Company’s filings with the Securities and Exchange Commission subsequent to the filing of the Original 10-K, including any amendments to those filings.

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STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

In this annual report, references to "eMagin Corporation," "eMagin," "Virtual Vision," "the Company," "we," "us," and "our" refer to eMagin Corporation and its wholly owned subsidiary, Virtual Vision, Inc.

Except for the historical information contained herein, some of the statements in this Report contain forward-looking statements that involve risks and uncertainties. These statements are found in the sections entitled "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operation," and "Risk Factors." They include statements concerning: our business strategy; expectations of market and customer response; liquidity and capital expenditures; future sources of revenues; expansion of our proposed product line; and trends in industry activity generally. In some cases, you can identify forward-looking statements by words such as "may," "will," "should," "expect," "plan," "could," "anticipate," "intend," "believe," "estimate," "predict," "potential," "goal," or "continue" or similar terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including, but not limited to, the risks outlined under "Risk Factors," that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. For example, assumptions that could cause actual results to vary materially from future results include, but are not limited to: our ability to successfully develop and market our products to customers; our ability to generate customer demand for our products in our target markets; the development of our target markets and market opportunities; our ability to manufacture suitable products at competitive cost; market pricing for our products and for competing products; the extent of increasing competition; technological developments in our target markets and the development of alternate, competing technologies in them; and sales of shares by existing shareholders. Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Unless we are required to do so under federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

PART I

ITEM 1. BUSINESS

Introduction

eMagin Corporation (“eMagin, “we,” “our,” or “us,”) is a leader in OLED (organic light emitting diode) technology. We design, develop, manufacture, and market OLED on silicon microdisplays, virtual imaging products which utilize OLED microdisplays, and related products. We also perform research in the OLED field. Our virtual imaging products integrate OLED technology with silicon chips to produce high-resolution microdisplays smaller than one-inch diagonally which, when viewed through a magnifier, create virtual images that appear comparable in size to that of a computer monitor or a large-screen television. Our products enable our original equipment manufacturer (“OEM”) customers to develop and market improved or new electronic products especially those that are mobile and highly portable. We believe that virtual imaging will become an important way for increasingly mobile people to have quick access to high resolution data, work, and experience new more immersive forms of communications and entertainment.

We believe our OLED microdisplays offer a number of significant advantages over other microdisplay options for near-to-eye applications including greatly increased power efficiency, less weight, and wider viewing angles. Using our active matrix OLED technology, many computer and electronic system functions can be built directly into the OLED microdisplay, resulting in compact, high resolution, power efficient systems. We have developed our own intellectual property and accumulated over 6 years of manufacturing know-how to create high performance OLED microdisplays.

As the first to exploit OLED technology for microdisplays, we believe that we enjoy a significant advantage in the commercialization of microdisplays for virtual imaging. We believe we are currently the only company to sell active matrix small molecule OLED-on-silicon microdisplays.

eMagin Corporation was created through the merger of Fashion Dynamics Corporation ("FDC"), which was organized on January 23, 1996 under the laws of the State of Nevada and FED Corporation ("FED"), a developer and manufacturer of optical systems and microdisplays for use in the electronics industry. Simultaneous with this merger, we changed our name to eMagin Corporation. eMagin is incorporated in the state of Delaware.

We derive the majority of our revenue from sales of our OLED microdisplay products. We also generate revenue from sales of optics, microdisplays combined with optics (“microviewers”), and virtual imaging systems (primarily our Z800 3DVisor ™). In addition we earn revenue from non-recurring engineering (“NRE”) projects and under government contracts that support some of our research and development programs.

Using our active matrix OLED technology, many computer and video electronic system functions can be built directly into the OLED microdisplay, resulting in compact systems with expected lower overall system costs relative to alternative microdisplay technologies. Already proven in commercialized military and commercial systems, our portfolio of OLED microdisplays deliver high-resolution, flicker-free virtual images, working effectively even in extreme temperatures and high-vibration conditions with greatly increased system level power efficiency, less weight and wider viewing angles.

Our Technology Platforms

Small Molecule, Top-Emitting Active Matrix OLED Technology

There are two basic classes of OLED technology, dubbed single molecule or small molecule (monomer) and polymer. Our microdisplays are currently based upon active matrix small molecule OLED technology, which we refer to as active matrix OLED ("AMOLED") because we build the displays directly on silicon chips. Our AMOLED technology uniquely permits millions of individual low-voltage light sources to be built on low-cost, silicon computer chips to produce single color, white or full-color display arrays. Using our OLED technology, many computer and video electronic system functions can be built directly into the silicon chip, under the OLED film, resulting in very compact, integrated systems with lowered overall system costs relative to alternative technologies.

OLEDs are thin films of stable organic materials that emit light of various colors when a voltage is impressed across them. OLEDs are emissive devices, which mean they create their own light, as opposed to liquid crystal displays, which require a separate light source. As a result, OLED devices use less power and can be capable of higher brightness and fuller color than liquid crystal microdisplays. Because the light they emit is Lambertian, which means that it appears equally bright from most forward directions, a moderate movement in the eye does not change the image brightness or color as it does in other technologies.

We have developed numerous and significant enhancements to OLED technology as well as key silicon circuit designs to effectively incorporate the OLED film on a silicon integrated circuit. For example, we have developed a unique, top-emitting structure for our OLED devices that enables OLED displays to be built on opaque silicon integrated circuits rather than only on glass. Our OLED devices emit full visible spectrum light that is isolated with color filters to create full color images. Our microdisplays have a brightness that can be greater than that of a typical notebook computer and can have a potential useful life of over 50,000 operating hours, in certain applications. New materials and device improvements, such as our recently developed OLED-XL ™ technology, offer potential for even better performance for brightness, efficiency, and lifespan. In addition to our active matrix OLED technology, we have developed compact optic and lens enhancements which, when coupled with the microdisplay, provide the high quality large screen appearance that we believe a large proportion of the marketplace demands.

We believe that our AMOLED technology provides significant advantages over other microdisplay technologies in our targeted microdisplay markets. We believe these key advantages include:

Low power consumption for improved battery life and longer system life;
High-speed performance resulting in clear video images;
Wide angle light emission resulting in large apparent screen size;
Wide operating temperature range;
Good environmental stability (vibration and humidity);
Low manufacturing cost; and
Low cost system solutions.

Prism Optics

High quality, large view lenses with a wide range for eye positioning are essential for using our displays in near-eye systems. We have developed advanced molded plastic prism lenses which permit our AMOLED microdisplays to provide large field of view images that can be viewed for extended periods with reduced eye-fatigue. We have engaged a firm to manufacture our lenses in order to provide them in larger quantities to our customers and are using them in our own Z800 3DVisor personal display systems.

Our Market Opportunities

The growth potential of our selected target market segments have been investigated using information gathered from key industry market research firms and resources, including Consumer Electronics Association, DisplaySearch, Mobile Display Report, Frost and Sullivan, McLaughlin Group, Nikkei, VisionGain and others. Such data was obtained using published reports and data obtained at industry symposia. We have also relied substantially on market projections obtained privately from industry leaders, industry analysts, and current and potential customers.

Most markets involve near-eye imaging applications for products such as viewfinders for digital cameras, or for head-wearable displays. These near-to-eye viewing products have been recently characterized by the McLaughlin Consulting Group as the Personal Viewer Market. The McLaughlin Group forecasts the total Personal Viewer Market to reach as much as 16.0 million units and $5.7 billion in revenue by 2012.

Head-wearable display products incorporate microdisplays mounted in or on eyeglasses, goggles, simple headbands, helmets, or hardhats, and are often referred to as head-mounted displays (HMDs) or headsets. Head-wearable displays may block out surroundings for a fully immersive experience, or be designed as "see-through" or "see-around" to the user's surroundings. They may contain one (monocular) or two (binocular) displays. Some of the increased current interest is due to accelerating the timetable to adapt such systems to military applications such as night vision and fire and rescue applications. The virtual-imaging markets we are targeting broadly fall into the categories of military, industrial/medical, and consumer though many products serve multiple markets ("dual use"). Within each of these market sectors, we believe that our OLED microdisplays, when combined with compact optic lenses, will become a key component for a number of mobile electronic products.

Military/First Responder

Properly implemented, we believe that head-mounted systems incorporating our microdisplays increases effectiveness by allowing hands-free operation and increasing situational awareness with enough brightness to be used in daylight, yet controllable for nighttime light security. As a COTS (commercial off the shelf) component, OLED microdisplays intrinsically demonstrate performance characteristics important to military and other demanding commercial and industrial applications, including high contrast, wide dimming range, shock and vibration resistance and insensitivity to high G-forces. The image does not suffer from flicker or color breakup in vibrating environments, and the microdisplay's wide viewing angle allows ease of viewing for long periods of time. Most importantly, our OLED's very low power consumption reduces battery weight and increases allowed mission length. The OLED's inherent wide temperature range is especially of interest for military applications because the display can turn on instantly at temperatures far below freezing and can operate at very high temperatures in desert conditions. Our SXGA OLED-XL™ microdisplay provides power advantages over other microdisplay technologies, particularly liquid crystal displays which require backlights and heaters and cannot provide instant-on capabilities at low temperatures.

Our products' military applications primarily fall into three broad areas: (1) helmet-mounted displays for situational awareness and data, (2) night vision/thermal imaging goggles and viewers, and (3) training and simulation devices. Similar systems are of interest for other military applications as well as for demanding operations such as urban security, homeland defense, fire and rescue.

Situational Awareness. Situational awareness products include head mounted displays which are used to display mapping, logistics and status and handheld imagers for border patrol and training. In certain situations these products are combined with a weapon system in order to give the user the capability of selecting targets without direct exposure. Our OLED microdisplays have already been commercially implemented into a number of military situational awareness programs including: US Army Land Warrior Program, U.S. Army Mounted Warrior Program, US Army Remote Viewer Program, FELIN Fantassin à Equipements et Liaisons Intégrés Program (French Infantryman with Networked Equipment), and Israeli Advanced Integrated Soldier System, among others. OEM products include Intevac Vision Systems' I-Port™ EX3, I-Port™', Night-Port™, and Binocular 50™.

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Night Vision/Thermal Imaging. Night Vision Goggles allow the user to see in low light conditions. The most modern versions usually include two different technologies: infrared/thermal, and image intensification. Third and fourth generation military devices usually use some combination of the two modes. Thermal imagers detect infrared energy (heat) and convert it into an electronic signal. The resulting signal needs to be presented on a display. Heat sensed by an infrared camera can be very precisely quantified, or measured, allowing the user to not only monitor thermal performance, but also identify and evaluate the relative severity of heat-related problems. Thermal imaging systems can be stand-alone handheld systems or integrated as part of the aiming mechanism for a larger system. Our OLED microdisplays are typically targeted to uncooled systems, as opposed to systems that require external cooling in order to increase their sensitivity. Advances in sensor technology, both in sensitivity and resolution as well as economic efficiency, have been driving factors in the adoption of thermal technologies for military applications. The power efficiency and environmental ruggedness of our products are strong competitive advantages, particularly in these small hand-held non-cooled systems. Fielded products incorporating eMagin OLED microdisplays include Northrop Grumman's Lightweight Laser Designator Rangefinders (LLDR), Thales SOPHIE handheld thermal imagers, and Thales MINIE™, LUCIE™, and MONIE™ night vision goggles.

Training and Simulation. Our OLED microdisplays and our Z800 3DVisor have been acquired by OEMs for use with their simulation and training products. The Z800's capability to integrate 360 degree head tracking and stereo vision, as well as its wide field of view are attractive attributes for any simulation or virtual reality system. Examples of commercialized training and simulation products include: Cubic CombatRedi™ tactical man-worn system with wireless communication, Drive Square's portable in-vehicle simulator, NVIS' Virtual Binocular SV™ and Monoscope SV™, Quantum 3D ExpeditionDI™, Rockwell Collins' SimEye SX45™ and SimEye SX60™, and Sensics' xSight.™

Military Market Size. The McLaughlin Group reports that in 2012 sales of thermal weapons sights are forecast to reach $525M and sales of enhanced night vision systems are projected to reach $1.75B, propelled by both higher volumes and higher prices for added capabilities of color, higher resolution, and digital connectivity. Sales of helmet-mounted personal viewers for situational awareness are forecast to reach $330M in 2012, with growth resulting from higher definition and color displays, Our displays have already been commercialized or prototyped for situational awareness and night vision/thermal imaging applications by military systems integrators including Elbit, Insight Technologies, Intevac Vision Systems, Nivisys, Oasys Technology, Qioptiq, Rockwell Collins, Saab, Sagem, and Thales, among many others. Night Vision Equipment Corporation's HelmetIR-50™, a lightweight, military helmet mounted thermal imager, which provides hands-free operation and allows viewers to see through total darkness, battlefield obscurants, and even foliage, is the first OLED-equipped product to be listed on the US Government's GSA schedule. Similar systems are of interest for other military applications as well as for related operations such as urban security, fire and rescue.

Commercial, Industrial, and Medical

We believe that a wide variety of commercial and industrial markets offer significant opportunities due to increasing demand for instant data accessibility in mobile workplaces. Some examples of potential microdisplay applications include: immediate access to inventory such as parts, tools and equipment availability; instant accessibility to maintenance or construction manuals; routine quality assurance inspection; endoscopic surgery; and real-time viewing of images and data for a variety of applications. As one potential example, a user wearing a HMD while using test equipment, such as oscilloscopes, can view technical data while simultaneously probing printed circuit boards. Current commercial products equipped with our OLED microdisplays in these sectors include those produced by Liteye, FLIR Systems, NordicNeuroLab, VRmagic GmbH, Sensics, and Total Fire Group, among others.

Consumer

We believe that the most significant driver of the longer term near-eye virtual imaging microdisplay market is growing consumer demand for mobile access to larger volumes of information and entertainment in smaller packages. This desire for mobility has resulted in the development of mobile video Personal Viewer products in two general categories: (i) an established market for electronic viewers incorporated in products such as viewfinders for digital cameras and video cameras which may potentially also be developed as personal viewers for cell phones and (ii) an emerging market for headset-application platforms which include accessories for mobile devices, portable DVD systems, electronic games, and other entertainment, and wearable computers.

As our OLED displays are manufactured in increasingly higher volumes at reduced costs, we believe that our OLED microdisplay products will be increasingly well positioned to compete with and displace liquid crystal displays in the rapidly growing consumer market as demand for higher-resolution, and better image quality evolves to meet the wish for more sophisticated Personal Viewers. Examples of potential applications for mobile Personal Viewers include handheld personal computers and mobile devices (such as smartphones, iPods™), whose small, direct view screens are often limitations, but which are now capable of running software applications that would benefit from a larger display accessory and entertainment and gaming video headset systems, which permit individuals to privately view television, including HDTV, video CDs, DVDs and video games on virtual large screens or stereovision.

Our Products

Our commercial microdisplay products based on our SVGA series OLED microdisplays, first introduced in 2001, have received award recognition including: SID Display of the Year and Electronic Products Magazine Product of the Year. In 2008 we introduced engineering samples of our SXGA OLED microdisplays. We are in the process of completing development of the SVGA 3DS (SVGA 3D shrink, a smaller format SVGA display with a new cell architecture with embedded features). We expect to begin selling significant quantities of the SXGA product in 2010. In 2006 we introduced our OLED-XL technology, which provides longer luminance half life and enhanced efficiency for all of our microdisplay product lines. These OLED and OLED-XL products are being applied or considered for near-eye and headset applications in products to be manufactured by OEM customers for a wide variety of military, medical, industrial, and consumer applications. We offer our products to OEMs and other buyers as both separate components, integrated bundles coupled with our own optics, or full systems. We also offer engineering support to enable customers to quickly integrate our products into their own product development programs and offer design of customized displays with resolutions or features to meet special customer requirements.

SVGA+ OLED Microdisplay Series (Super Video Graphics Array of 800x600 plus 52 added columns of data). Our 0.62 inch diagonal SVGA+ OLED microdisplays have a resolution of 852x600 triad pixels (1.53 million picture elements). The product was dubbed "SVGA+" because it has 52 more display columns than a standard SVGA display, permitting users to run either (1) standard SVGA (800 x 600 pixels) to interface to the analog output of many portable computers or (2) 852 x 480, using all the data available from a DVD player in a 16:9 wide screen entertainment format. The display also has an internal NTSC monochrome video decoder for low power night vision systems. SVGA+ Rev3 OLED-XL microdisplay, the most power efficient OLED solution for near-eye personal viewer applications, uses less than 115 mW power in monochrome, such as for thermal imaging applications, and lower than 175 mW at 400 cd/m2 (60Hz video at 70 cd/m2) for full color video. This new microdisplay has simpler calibration over temperature and is ideal for demanding binocular luminance and color matching. It also shares all the functional and design characteristics of eMagin's original SVGA OLEDs, responding instantly at temperatures as low as -40 degrees C.

SVGA-3D OLED Microdisplay (Super Video Graphics Array plus built-in stereovision capability). Our 0.59 inch diagonal SVGA-3D OLED microdisplays have a resolution of 800x600 triad pixels (1.44 million picture elements). A built-in circuit provides compatibility with single channel frame sequential stereoscopic vision without additional external components. The SVGA-3D OLED-XL is primarily used as components of our Z800 3DVisor.

SXGA OLED-XL (Super eXtended Graphics Array, 1280 x 1024). Our SXGA OLED microdisplay with 0.77 inch diagonal active area provides 3,932,160 sub-pixels in an active area that is only .15 inches larger than our SVGA+ microdisplay. The 1280 x 1024 triad pixel array comprises triads of vertical sub-pixels stacked side by side to make up each 12 x 12mm color pixel. The SXGA OLED-XL microdisplay offers both analog and digital signal processing, requiring less than 200mW under typical operation. The new SXGA microdisplays provide versatility and flexibility for OEM developers though a FPGA driver design available on a separate, lower power driver board, or as source code for integration into end product electronics for maximum power efficiency. The supported video formats are SXGA, 720p, DVGA (through 1280 x 960 pixel doubling), and both frame sequential and field sequential stereovision. Additional enhancements include increased pixel uniformity, improved color gamut, on-chip temperature sensor and compensation, and compatibility with both analog RGB and digital video signals. On-board circuitry ensures consistent color and brightness over a wide range of operating temperatures.

Lens and Design Reference Kits. We offer a WF05 prism optic, with mounting brackets or combined with OLED microdisplays to form an optic-display module. We provide Design Reference Kits, which include a microdisplay and associated electronics to help OEMs evaluate our microdisplay products and to assist their efforts to build and test new products incorporating our microdisplays.

Integrated Modules. We provide near-eye virtual imaging modules that incorporate our OLED-on-silicon microdisplays with our lenses and electronic interfaces for integration into OEM products. We have shipped customized modules to several customers, some of which have incorporated our products into their own commercial products.

Z800 3DVisor™ Our Z800 3DVisors™ give users the ability to work with their hands while simultaneously viewing information or video on the display. The Z800 3DVisor enables more versatile portable computing, using a 0.59-inch diagonal microdisplay (SVGA-3D capable of delivering an image that appears comparable to that of a 19-inch monitor at 22 to 24 inches from the eye, or a 105 inch movie screen at 12 foot distance.) Our systems are currently being used for personal entertainment, electronic gaming, and military training and simulation, among other applications. This product has received industry recognition including: Digital Living Class 2005 Innovators, Consumer Electronics Association's Consumer Electronics Show (CES) 2006 Best of Innovation Awards for the entire display category as well as a Design and Innovations Award for the electronic gaming category, and, was recognized as one of Advanced Imaging's Solutions of the Year, as integrated in Chatten Associates' head-aimed remote viewer.

Government Contract Funding

We derive a portion of our revenue from funding that we receive pursuant to research contracts or subcontracts funded by various agencies of the U.S. Government. The revenue that we recognize from these contracts represents reimbursement by various U.S. Government entities. Our recent contracts have been awarded for development of power efficient microdisplay for US Army Night Vision and development of ultra-high resolution display for US Army telemedicine. Our government contracts require us to conduct the research effort described in the statement of work section of the contract. These contracts may be modified or terminated at the discretion of the government and typically are subject to appropriation and allocation of the required funding on an annual basis. On contracts for which we are the prime contractor, we subcontract portions of the work to various entities and institutions.

Our Strategy

Our strategy is to strengthen our leadership position as a worldwide supplier of microdisplays and virtual imaging technology solutions for applications in high growth segments of the electronics industry by capitalizing on our experience and expertise in active matrix OLED technology. We aim to provide microdisplay and complementary accessories to enable OEM customers to develop and manufacture new and enhanced electronic products. Some key elements of our strategy to achieve these objectives include the following:

Strengthen our technology leadership. As the first to exploit AMOLED microdisplays, we believe that we enjoy a significant advantage in bringing this technology to market. By continuing to invest in research and development, and protecting our intellectual property, we expect to further develop performance improvements and provide a competitive edge for our customers who integrate our displays into their end products.

Optimize microdisplay manufacturing efficiencies while protecting proprietary processes. We intend to reduce our production costs primarily through increasing manufacturing yield and lowering fixed costs through reduced cycle time and increased automation, as well as equipment upgrades. We outsource certain portions of microdisplay production, such as chip fabrication, to minimize both our costs and time to market. We intend to retain the OLED-related processes in-house, where we have a core competency and manufacturing expertise. We also believe that by keeping these processes under tight control we can better protect our proprietary technology and process know-how. This strategy will also enhance our ability to continue to optimize and customize processes and devices to meet customer needs.

Build and maintain strong design capabilities. We employ in-house design capabilities supplemented by outsourced design services. Building and maintaining this capability will allow us to reduce engineering costs, accelerate the design process and enhance design accuracy to respond to our customers' needs as new markets develop. In addition, we intend to maintain a product design staff capable of rapidly developing prototype products for our customers and strategic partners. Contracting third party design support to meet demand and for specialized design skills will also remain a part of our overall long term strategy.

Leverage strategic relationships. External relationships play an important role in our research and development efforts. Suppliers, equipment vendors, government organizations, contract research groups, external design companies, customer and corporate partners, consortia, and university relationships all enhance the overall research and development effort and bring us new ideas and solutions. In addition, we participate in industry associations such as Society Information Display, FlexTech Alliance (formerly known as United States Display Consortium), OLED Association, Consumer Electronics Association, and the Association of the United States Army, among others. Furthermore, we have established a CRADA (Cooperative Research and Development Agreement) with the US Army/RDECOM/NVESD for the purpose of evaluating and characterizing new and existing AMOLED microdisplay configurations. We believe that strategic relationships allow us to better determine the demands of the marketplace and, as a result, allow us to focus our future research and development activities to satisfy our customers’ evolving requirements.

Sales and Marketing

We primarily provide our OLED display and optics components for OEMs to incorporate into their branded products and sell through their own well-established distribution channels. We have traditionally marketed and sold our products to customers through targeted selling, promotions, select advertising and attendance at trade shows. We identify companies with end products and applications for which we believe our products will provide a key differentiator. Marketing efforts focus on identifying prospects and communicating the product performance attributes foremost in the minds of purchasing decision-makers. This approach is intended to ensure the highest possible return on investment for our marketing expense.

We market our products in North America, Asia, and Europe directly from our sales office located in our Bellevue, Washington facility. We also have distributors in China and Korea. We sell the Z800 3DVisor to individual buyers, OEM systems and equipment customers, through distributors, and through our e-commerce website, www.3dvisor.com. The contents of our e-commerce website are not part of this Report.

An OEM design cycle typically requires between 6 and 36 months, depending on the uniqueness of the market, the complexity of the end product, or in the case of military OEM customers, government procurement schedules. Because our microdisplays are the main functional component that defines many of our customers' end products, we work closely with customers to provide technical assistance throughout the product evaluation and integration process.

Customers

Customers for our products include both large multinational and smaller OEMs. We maintain relationships with OEMs in a diverse range of industries encompassing the military, industrial, medical, and consumer market sectors. During 2009, 57% of our net revenue was to firms based in the United States and 43% was to international firms as compared to 61% domestic revenue and 39% international revenue during 2008. In 2009, we had 10 customers that accounted for more than 56% of our total revenue as compared to 10 customers that accounted for more than 63% of our total revenue in 2008. In 2009, we had 1 customer that accounted for more than 10% of our total revenue as compared to 2008 when we had 2 customers that each accounted for more than 10% of our total revenue.

Backlog

As of February 28, 2010, we had a backlog of approximately $6.8 million for purchases through December 2010. This backlog primarily consists of non-binding purchase orders and purchase agreements but does not include expected revenue from R&D contracts or expected NRE (non-recurring engineering) programs under development.

The majority of our backlog consists of non-binding purchase orders or purchase agreements for delivery over the next six months. Most purchase orders are subject to rescheduling or cancellation by the customer with no or limited penalties. We believe that the backlog metric is of limited utility in predicting future sales because many of our OEM customers operate on a ship-to-order basis. Variations in the magnitude and duration of purchase orders and customer delivery requirements may result in substantial fluctuations in backlog from period to period.

Manufacturing Facilities

We are located at IBM's Microelectronics Division facility, known as the Hudson Valley Research Park, located about 70 miles north of New York City in Hopewell Junction, New York. We lease approximately 37,000 square feet of space which houses our own equipment for OLED microdisplay fabrication and research and development, includes a 16,300 square foot class 10 clean room space, additional lower level clean room space, assembly space and administrative offices.

Facilities services provided by IBM include our clean room, pure gases, high purity de-ionized water, compressed air, chilled water systems, and waste disposal support. This infrastructure provided by our lease with IBM provides us with many of the resources of a larger corporation without the added overhead costs. It further allows us to focus our resources more efficiently on our product development and manufacturing goals.

We also lease a facility in Bellevue, Washington where we operate our Z800 3DVisor operations, finance function and business development activities. The facilities are well suited for designing and building limited volume prototypes and small quantity industrial or government products.

We believe manufacturing efficiency is an important factor for success, especially in the consumer markets. We currently have the equipment needed for profitable production in place. We plan to add equipment to increase capacity and yield over the next two years to meet expected demand for our microdisplays.

Competition

The industry in which we operate is highly competitive. We face competition from legacy technologies such as cathode ray tubes (CRTs), liquid crystal on silicon microdisplays (LCOS), and transmissive liquid crystal displays (LCDs) as well as from alternative flat panel display technologies such as field emission and virtual scanning retinal displays. There are many large and small companies that manufacture or have in development products based on these technologies.

Currently, in the high resolution microdisplay market, we face competition from liquid crystal microdisplay manufacturers, such as those sold by Kopin Corporation. We are not aware of any current manufacturers of high resolution OLED microdisplays that compete with our microdisplay products.

In the future, we believe that our key competition will come from LCOS and small transmissive LCDs. While we believe that OLED technology has the capability to provide higher quality images, greater environmental ruggedness, reduced electronics cost and complexity, and improved power efficiency advantages over either type of liquid crystal based microdisplays, there is no assurance that these benefits will be fully realized or that liquid crystal manufacturers will not suitably improve these parameters to reduce these potential advantages of OLEDs.

To our knowledge, the only other companies that have publicly stated plans to commercially develop OLED microdisplays for near-eye applications are MicroEmissive Displays (MED) in Britain and MicroOLED in France. Though MED had raised substantial funds and created a new production facility, the company ceased business operations in 2008. We believe that one or more companies in Asia are investigating production of OLED microdisplays. We may also compete with potential licensees of Universal Display Corporation, Global OLED Technology LLC, or Cambridge Display Technology, among others, each of which potentially can license OLED technology portfolios. If other new OLED-based companies enter our markets with directly relevant display designs and without manufacturing and reliability issues, we will face competition, though we believe that our progress to date in this area gives us a substantial head start.

Intellectual Property

We believe we have developed a substantial intellectual property portfolio of patents, trade secrets and manufacturing know-how. It is important to protect our investment in technology by obtaining and enforcing intellectual property rights, including rights under patent, trademark, trade secret and copyright laws. We seek to protect inventions we consider significant by applying for patents in the United States and other countries when appropriate.

Our intellectual property covers a wide range of materials, device structures, processes, and fabrication techniques, primarily concentrated in the following areas:

OLED Materials, Structures, and Processes;
Display Color Processing and Sealing;
Active Matrix Circuit Methodologies and Designs;
Lenses and Tracking (Eye and Head);
Ergonomics and Industrial Design;
Wearable Computer Interface Methodology; and
Legacy Field Emission and General Display Technologies.

We believe that, in addition to patent protection, our success is dependent upon non-patentable trade secrets and technical expertise. To protect this information and know-how from unauthorized use or disclosure, we use nondisclosure agreements and other measures to protect our proprietary rights, and we require all employees, and where appropriate, contractors, consultants, advisors and collaborators to enter into confidentiality and non-competition agreements. We believe that our intellectual property portfolio, coupled with our strategic relationships and accumulated manufacturing know-how in OLED, gives us a significant advantage over potential competitors.

Employees

As of February 28, 2010, we had a total of 64 full time and part time staff. None of our employees are represented by a labor union. We have not experienced any work stoppages and consider our relations with our employees to be good.

Available Information

Our website address is www.emagin.com. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, our Proxy Statements and all amendments to such reports filed under the Securities and Exchange Act after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (SEC). These reports may be accessed from our website by following the links under “Investors,” then “SEC Filings.” The information found on our website is not part of this or any other report we file with or furnish to the SEC. We assume no obligation to update or revise any forward-looking statements in this Annual Report or in other reports filed with the SEC, whether as a result of new information, future events or otherwise, unless we are required to do so by law. A copy of this Annual Report and our other reports is available without charge upon written request to Investor Relations, eMagin Corporation, 3006 Northup Way, Suite 103, Bellevue, WA 98004.

We also post on our website the charters of our Audit, Compensation, Governance and Nominating committees, our Codes of Ethics and any amendments of or waiver to those codes of ethics, and other corporate governance materials recommended by the SEC as they occur, as well as earnings press releases and other business-related press releases.

Our e-commerce site for sales of our Z800 3DVisor is www.3dvisor.com. The contents of this website are not part of this Report.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors and the other information included herein as well as the information included in other reports and filings made with the SEC before investing in our common stock. The following factors, as well as other factors affecting our operating results and financial condition, could cause our actual future results and financial condition to differ materially from those projected. The trading price of our common stock could decline due to any of these risks, and you may lose part or all of your investment.

RISKS RELATED TO OUR FINANCIAL RESULTS

We have had losses in the past and may incur losses in the future.

Our accumulated deficit is approximately $190 million as of December 31, 2009. We have not achieved profitability on a full year basis. We had one profitable quarter in 2009. We can give no assurances that we will continue to be profitable in the future. We cannot assure investors that we will sustain profitability or that we will not incur operating losses in the future.

We may not be able to execute our business plan due to a lack of cash from operations.

Prior to April 2008, we had not produced positive cash flows from operations. However, we have generated positive cash flows the past 7 quarters. We anticipate that our cash from operations will be sufficient to meet our requirements over the next twelve months. In the event that cash flow from operations is less than anticipated and we are unable to secure additional funding to cover our expenses, in order to preserve cash, we may have to reduce expenditures and effect reductions in our corporate infrastructure, either of which could have a material adverse effect on our ability to continue our current level of operations. No assurance can be given that if additional financing is necessary, that it will be available, or if available, will be on acceptable terms.

Our operating results have significant fluctuations.

In addition to the variability resulting from the short-term nature of commitments from our customers, other factors contribute to significant periodic quarterly fluctuations in results of operations. These factors include, but are not limited to, the following:

- the receipt and timing of orders and the timing of delivery of orders;
- the inability to adjust expense levels or delays in adjusting expense levels, in either case in response to lower than expected revenues or gross margins;
- the volume of orders relative to our manufacturing capacity;
- product introductions and market acceptance of new products or new generations of products;
- changes in cost and availability of labor and components;
- product mix;
- variation in operating expenses; regulatory requirements, foreign currency fluctuations and changes in duties and tariffs;
- pricing and availability of competitive products and services; and
- changes, whether or not anticipated, in economic conditions.

Accordingly, the results of any past periods should not be relied upon as an indication of our future performance.

RISKS RELATED TO MANUFACTURING

The manufacture of active matrix OLED microdisplays is new and could result in manufacturing issues or delays.

Ours is an evolving technology and we are pioneers in this active matrix OLED microdisplay manufacturing technique. We cannot assure you that we will be able to produce our products in sufficient quantity and quality to maintain existing customers and attract new customers. In addition, we cannot assure you 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 currently 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. However, we try to maintain product inventory to fill the requirements under such circumstances. 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.

We rely on key sole source and limited source suppliers.

We depend on a number of sole source or limited source suppliers for certain raw materials, components, and services. These include circuit boards, graphic integrated circuits, passive components, materials and chemicals, and equipment support. We maintain several single-source supplier relationships, either because alternative sources are not available or because the relationship is advantageous due to performance, quality, support, delivery, capacity, or price considerations. Even where alternative sources of supply are available, qualification of the alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which could be detrimental to operating results. We do not manufacture the silicon integrated circuits on which we incorporate our OLED technology. Instead, we provide the design layouts to a sole semiconductor contract manufacturer who manufactures the integrated circuits on silicon wafers. Our inability to obtain sufficient quantities of components and other 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.

Our results of operations, financial condition, and business would be harmed if we were unable to balance customer demand and capacity.

As customer demand for our products, particularly new products, changes we must be able to ramp up or adjust our production capacity to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. If we are not able to increase our capacity or if we increase our capacity too quickly, our business and results of operations could be adversely impacted. If we experience delays or unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets. For some of our products, vendor lead times exceed our customers' required delivery time causing us to order to forecast rather than order based on actual demand. Ordering raw material and building finished goods based on forecasts exposes us to numerous risks including potential inability to service customer demand in an acceptable timeframe, holding excess inventory or having unabsorbed manufacturing overhead.

Variations in our production yields impact our ability to reduce costs and could cause our margins to decline and our operating results to suffer.

All of our products are manufactured using technologies that are highly complex. The number of usable items, or yield, from our production processes may fluctuate as a result of many factors, including but not limited to the following:

- variability in our process repeatability and control;
- contamination of the manufacturing environment or equipment;
- equipment failure, power outages, or variations in the manufacturing process;
- lack of consistency and adequate quality and quantity of piece parts and other raw materials;
- defects in packaging either within or without our control; and
- any transitions or changes in our production process, planned or unplanned.

We could experience manufacturing interruptions, delays, or inefficiencies if we are unable to timely and reliably procure components from single-sourced suppliers.

We maintain several single-source supplier relationships, either because alternative sources are not available or because the relationship is advantageous due to performance, quality, support, delivery, capacity, or price considerations. If the supply of a critical single-source material or component is delayed or curtailed, we may not be able to ship the related product in desired quantities and in a timely manner. Even where alternative sources of supply are available, qualification of the alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which could harm operating results.

RISKS RELATED TO OUR INTELLECTUAL PROPERTY

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, and protection of our intellectual property rights may be limited in certain foreign countries. On April 30, 2007, the U.S. Supreme Court, in KSR International Co. vs. Teleflex, Inc., mandated a more expansive and flexible approach towards a determination as to whether a patent is obvious and invalid, which may make it more difficult for patent holders to secure or maintain existing patents. 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.

In addition to patent protection, we also rely on trade secrets and other non-patented proprietary information relating to our product development and manufacturing activities. We try to protect this information through appropriate efforts to maintain its secrecy, including requiring employees and third parties to sign confidentiality agreements. We cannot be sure that these efforts will be successful or that the confidentiality agreements will not be breached. We also cannot be sure that we would have adequate remedies for any breach of such agreements or other misappropriation of our trade secrets or that our trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

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 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 may be cyclical.

Our business strategy is dependent on OEM manufacturers building and selling products that incorporate our OLED displays as components into those products. Industry-wide fluctuations could cause significant harm to our business. 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.

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. 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.

Our products are subject to lengthy OEM development periods.

We 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 often with a duration of between one and three years. 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, that we will have the resources to fund the expenditures necessary to implement certain cost-saving measures, or that our costs can be reduced as quickly as any reduction in unit prices. 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 OUR BUSINESS

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 attracting and retaining new personnel may have a materially adverse affect on our business and our operating results.

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 and 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 operating results are substantially dependent on the development and acceptance of new products and technology innovations.

Our future success may depend on our ability to develop new and lower cost solutions for existing and new markets and for customers to accept those solutions. We must introduce new products in a timely and cost-efficient manner, and we must secure production orders for those products from our customers. The development of new products is a highly complex process, and we historically have experienced delays in completing the development and introduction of new products. Some or all of those technologies or products may not successfully make the transition from the research and development lab. Even when we successfully complete a research and development effort with respect to a particular product or technology, it may fail to gain market acceptance. The successful development and introduction of these products depends on a number of factors, including the following:

- achievement of technology breakthroughs required to make commercially viable devices;
- the accuracy of our predictions of market requirements;
- acceptance of our new product designs;
- acceptance of new technology in certain markets;
- the availability of qualified research and development and product development personnel;

- our timely completion of product designs and development;
- our ability and available resources to expand sales;
- our ability to develop repeatable processes to manufacture new products in sufficient quantities and at low enough costs for commercial sales;
- our customers' ability to develop competitive products incorporating our products; and
- acceptance of our customers' products by the market.

If any of these or other factors become problematic, we may not be able to develop and introduce these new products in a timely or cost-effective manner.

If government agencies discontinue or curtail their funding for our research and development programs our business may suffer.

Changes in federal budget priorities could adversely affect our contract revenue. Historically, government agencies have funded a significant part of our research and development activities. When the government changes budget priorities, such as in time of war or for other reasons, our funding has the risk of being redirected to other programs. Government contracts are also subject to the risk that the government agency may not appropriate and allocate all funding contemplated by the contract. In addition our government contracts generally permit the contracting authority to terminate the contract for the convenience of the government. The full value of the contracts would not be realized if they were prematurely terminated. We may be unable to incur sufficient allowable costs to generate the full estimated contract values. Furthermore, the research and development and product procurement contracts of the customers we supply may be similarly impacted. If the government funding is discontinued or reduced, our ability to develop or enhance products could be limited and our business results or operations and financial conditions could be adversely affected.

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 has primarily operated on the basis of short-term purchase orders. We receive some longer term purchase agreements, and procurement contracts, but we cannot guarantee that we will continue to do so. Our current purchase agreements can be cancelled or revised without penalty, depending on the circumstances. We plan production primarily on the basis of internally generated forecasts of demand based on communications with customers, and available industry data which makes it difficult to accurately forecast revenues. If we fail to accurately forecast operating results, our business may suffer and the value of your investment in eMagin 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 active matrix OLED technology.

Our prospects could be significantly affected by our ability to develop strategic alliances with OEMs for incorporation of our active matrix OLED microdisplay 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 could have a material adverse effect on our business.

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 foreign entities. Some customers in other countries have longer receivable periods or warranty periods. In addition, many of the foreign OEMs that are the most likely long-term purchasers of our microdisplays expose 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 expose us to various risks, including management of a multi-national organization, the complexities of complying with foreign laws and customs, political instability and the complexities of taxation in multiple jurisdictions.

Our business may expose us to product liability claims.

Our business may expose us to potential product liability claims. Although no such claims have 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.

Current adverse economic conditions may adversely impact our business, operating results and financial condition.

The current economic conditions and market instability may affect our customers and suppliers. Any adverse financial or economic impact to our customers may impact their ability to pay timely, or result in their inability to pay. It may also impact their ability to fund future purchases, or increase the sales cycles which could lead to a reduction in revenue and accounts receivable. Our suppliers may increase their prices or may be unable to supply needed raw materials on a timely basis which could result in our inability to meet customers' demand or affect our gross margins. Our suppliers may, also, impose more stringent payment terms on us. The timing and nature of any recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not be materially and adversely affected.

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 eMagin 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 February 28, 2010, we have outstanding common shares of 17,073,558 plus (i) options to purchase 2,798,711 shares, (ii) warrants to purchase 8,990,102 shares and (iii) convertible preferred stock to purchase 7,652,000 shares of common stock.

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 eMagin. 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.

Changes in internal controls or accounting guidance could cause volatility in our stock price.

Guidance regarding implementation and interpretation of the provisions of Section 404 continues to be issued by the standards-setting community. Smaller reporting companies are subject to the audit of internal controls for the first time in fiscal years that end on or after June 15, 2010. As a result of the ongoing interpretation of new guidance and the audit testing to be completed in the near future, our internal controls over financial reporting may include an unidentified material weakness which would result in receiving an adverse opinion on our internal controls over financial reporting from our independent registered public accounting firm. This could result in significant additional expenditures responding to the Section 404 internal control audit, heightened regulatory scrutiny and potentially an adverse effect to the price of our stock.

In addition, due to increased regulatory scrutiny surrounding publicly traded companies, the possibility exists that a restatement of past financial results could be necessitated by an alternative interpretation of present accounting guidance and practice. Although management does not currently anticipate that this will occur, a potential result of such interpretation could be an adverse effect on our stock price.

The market price of our common stock may be volatile.

The market price of our common stock has been subject to wide fluctuations. During our four most recently completed fiscal quarters, the closing price of our stock ranged from $0.35 to $1.95 and decreased to a low of $0.35 on March 2, 2009. The market price of our common stock in the future is likely to continue to be subject to wide fluctuations in response to various factors, including, but not limited to, the following:

- variations in our operating results and financial conditions;
- actual or anticipated announcements of technical innovations, new product developments, or design wins by us or our competitors;
- general conditions in the semiconductor and flat panel display industries; and
- worldwide economic and financial conditions.

In addition, the public stock markets have experienced extreme price and volume fluctuations that have particularly affected the market price for many technology companies and that have often been unrelated to the operating performance of these companies. The broad market fluctuations and other factors may continue to adversely affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate offices are located in Bellevue, Washington. Our Washington location includes administrative, finance, operations, research and development and sales and marketing functions and consists of leased space of approximately 5,100 square feet. The lease expires in 2014. Our manufacturing facility is located in Hopewell Junction, New York, where we lease approximately 37,000 square feet from IBM. The NY facility houses our equipment for OLED microdisplay fabrication, assembly operations, research and development, and administrative functions. The lease expires in 2014. We believe our facilities are adequate for our current and near-term needs. We believe we will be able to renew these leases or obtain alternative spaces under acceptable terms. See Note 13 to the Consolidated Financial Statements for more information about lease commitments.

ITEM 3. LEGAL PROCEEDINGS

A former employee (“plaintiff”) of the Company commenced legal action in the United States District Court for the Southern District of New York, on or about October 12, 2007, alleging that the plaintiff was subject to gender based discrimination and retaliation in violation of Title VII of the Civil Rights Act of 1964 (Case No. 07-CV-8827 (KMK) . The plaintiff seeks unspecified compensatory damages, punitive damages and attorneys’ fees. On November 26, 2007, the Company served and filed its Answer, in which it denied the material allegations of the Complaint and asserted numerous affirmative defenses. The Company and the plaintiff settled this action in May 2009. The settlement did not have a material effect on the Company’s results of operations.

On December 6, 2005, New York State Urban Development Corporation commenced action against eMagin in the Supreme Court of the State of New York, County of New York, asserting breach of contract and seeking to recover a $150,000 grant which was made to eMagin based on goals set forth in the agreement for recruitment of employees. On July 13, 2006, eMagin agreed to a settlement with the New York State Urban Development Corporation to repay $112,200 of the $150,000 grant. The settlement required that repayments be made on a monthly basis in the amount of $3,116.67 per month commencing August 1, 2006 and ending on July 1, 2009. As of December 31, 2009, the settlement was paid and $37,800 was forgiven as a result of timely payments and was recorded in other income on the Company’s consolidated statements of operations.

On March 17, 2010, Gary Jones, a former executive at the Company filed a complaint for damages in the Superior Court of the State of Washington for King County (the "Complaint") against the Company and the Company's Chief Financial Officer. The Complaint alleges unspecified damages for failure to pay contractual payments and wages under Washington law and includes, among other claims, breach of contract, breach of the duty of good faith and fair dealing, promissory estoppel and misrepresentation. The Company denies the allegations raised in the Complaint and intends to vigorously defend itself. There can be no assurance of the outcome of this matter.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the OTC Bulletin Board under the symbol "EMAN". The following table sets forth the range of high and low prices per share of our common stock for each period indicated.

	2008		2009	
	High	Low	High	Low
First quarter	$ 1.47	$ 0.88	$ 0.85	$ 0.32
Second quarter	$ 1.05	$ 0.63	$ 1.40	$ 0.60
Third quarter	$ 0.83	$ 0.52	$ 2.08	$ 0.97
Fourth quarter	$ 0.75	$ 0.21	$ 2.00	$ 1.38

As of February 28, 2010, there were 504 holders of record of our common stock. Because brokers and other institutions hold many of the shares on behalf of shareholders, we are unable to determine the actual number of shareholders represented by these record holders.

Dividends

We have never declared or paid cash dividends on our common stock. We currently anticipate that we will retain all future earnings to fund the operation of our business and do not anticipate paying dividends on our common stock in the foreseeable future.

Recent Issuances of Unregistered Stock

None.

Equity Compensation Plan Information

The following table sets forth the aggregate information of our equity compensation plans in effect as of December 31, 2009:

Plan	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column
Equity compensation plans approved by security holders – 2003 Stock Option Plan	1,251,882	$ 1.00	53,006
Equity compensation plans not approved by security holders –	1,565,692	$ 1.47	222,626

2008 Incentive Stock Plan

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations". The consolidated statements of operations data for the years ended December 31, 2009 (Restated), 2008, and 2007 and the balance sheet data at December 31, 2009 (Restated) and 2008 are derived from our audited financial statements which are included elsewhere in this Form 10-K /A . The consolidated statements of operations data for the years ended December 31, 2006 and 2005 and the balance sheet data at December 31, 2007, 2006 and 2005 are derived from our audited financial statements which are not included in this Form 10-K /A . The historical results are not necessarily indicative of results to be expected for future periods. The following information is presented in thousands, except per share data.

Consolidated Statements of Operations Data:

	For the Year Ended December 31,				
	2009 (Restated)	2008	2007	2006	2005
	(In thousands, except per share data)				
Revenue	$ 23,822	$ 18,739	$ 17,554	$ 8,169	$ 3,745
Cost of goods sold	10,175	10,673	12,628	11,359	10,219
Gross profit (loss)	13,647	8,066	4,926	(3,190)	(6,474)
Operating expenses:					
Research and development	1,996	2,081	2,949	4,406	4,020
Selling, general and administrative	6,900	6,254	6,591	8,860	6,316
Total operating expenses	8,896	8,335	9,540	13,266	10,336
Income (loss) from operations	4,751	(269)	(4,614)	(16,456)	(16,810)
Other (expense) income, net	(6,932)	(1,590)	(13,874))	1,190	282
Net loss prior to income tax provision	(2,181)	(1,859)	(18,488)	(15,266)	(16,528)
Net loss	$ (2,271)	$ (1,859)	$ (18,488)	$ (15,266)	$ (16,528)
Loss per share, basic	$ (0.14)	$ (0.13)	$ (1.59)	$ (1.52)	$ (1.94)
Loss per share, diluted	$ (0.14)	$ (0.13)	$ (1.59)	$ (1.52)	$ (1.94)
Shares used in calculation of loss per share:					
Basic	16,344	14,175	11,633	10,058	8,541
Diluted	16,344	14,175	11,633	10,058	8,541

Consolidated Balance Sheet Data:
(in thousands)

	December 31,				
	2009 (Restated)	2008	2007	2006	2005
Cash and cash equivalents	$ 5,295	$ 2,404	$ 713	$ 1,415	$ 6,727
Working capital (deficit)	$ 8,581	$ 3,300	$ (4,708)	$ (305)	$ 8,868
Total assets	$ 13,980	$ 10,104	$ 6,648	$ 7,005	$ 14,142
Long-term obligations	$ 6,844	$ —	$ 60	$ 2,229	$ 56
Total shareholders' equity (capital deficit)	$ 2,893	$ 3,661	$ (4,170)	$ (1,164)	$ 10,401

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion should be read in conjunction with the Financial Statements and Notes thereto. Our fiscal year ends December 31. This document contains certain forward-looking statements including, among others, anticipated trends in our financial condition and results of operations and our business strategy. (See Part I, Item 1A, "Risk Factors "). These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include (i) changes in external factors or in our internal budgeting process which might impact trends in our results of operations; (ii) unanticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to execute our strategy due to unanticipated changes in the industries in which we operate; and (iv) various competitive market factors that may prevent us from competing successfully in the marketplace.

Restatement of Previously Issued Consolidated Financial Statements

In this Amendment No. 1 we have restated our previously issued management’s discussion and analysis of financial condition and results of operations, consolidated financial statements and related disclosures for the year ended December 31, 2009 for the following:

- To correct errors in the accounting for certain warrants. Specifically, we previously classified as equity instruments warrants that should have been classified as derivative liability instruments based on the terms of the warrants and the applicable accounting guidance.

- To correct an error in the calculation of earnings per share (“EPS”). We issued Preferred Stock – Series B which participates in dividends with our common stock; as a result, we should have used the two-class method for calculating EPS.

Overview

We design and manufacture miniature displays, which we refer to as OLED-on-silicon-microdisplays, and microdisplay modules for virtual imaging, primarily for incorporation into the products of other manufacturers. Microdisplays are typically smaller than many postage stamps, 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 the device. 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 through 2004, we derived the majority 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. From inception to December 31, 2009, we have recognized an aggregate of approximately $74.2 million from sales of our products. As of February 28, 2010, we have a backlog of approximately $6.8 million in products ordered for delivery through December 31, 2010 compared to a backlog of $7.4 million in products ordered for delivery through December 31, 2009. This backlog consists of non-binding purchase orders and purchase agreements. These products are being applied or considered for near-eye and headset applications in products such as thermal imagers, night vision goggles, entertainment 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 our Z800 3DVisor personal 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.

We have developed a strong portfolio of our own patents, manufacturing know-how and technology to create high performance OLED-on-silicon microdisplays and related optical systems. We believe our technology and intellectual property portfolio, gives us a leadership position in OLED and OLED-on-silicon microdisplay technology. We believe that we are the only company to demonstrate publicly and market full-color small molecule OLED-on-silicon microdisplays.

Company History

We began as a developmental stage company. As of January 1, 2003, we were no longer classified as 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. Currently, most of our operating expenses are labor related and therefore semi-fixed. 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 and Cost 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 and risk of loss 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. We record a reserve for estimated sales returns, which is reflected as a reduction of revenue at the time of revenue recognition. Products sold directly to consumers have a thirty day right of return. Revenue on consumer products is deferred until the right of return has expired.

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.

Product Warranty

We offer a one-year product replacement warranty. In general, our standard policy is to repair or replace the defective products. We accrue for estimated returns of defective products at the time revenue is recognized based on historical activity as well as for specific known product issues. The determination of these accruals requires us to make estimates of the frequency and extent of warranty activity and estimate future costs to replace the products under warranty. If the actual warranty activity and/or repair and replacement costs differ significantly from these estimates, adjustments to recognize additional cost of revenue may be required in future periods.

Use of Estimates

In accordance with accounting principles generally accepted in the United States of America, management utilizes certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Fair Value of Financial Instruments - Restated

eMagin's cash, cash equivalents, accounts receivable, short-term investments, accounts payable and debt are stated at cost which approximates fair value due to the short-term nature of these instruments. The Company measures the fair value of our warrants based on the Monte Carlo Simulation approach.

Stock-based Compensation

eMagin maintains several stock equity incentive plans. The 2005 Employee Stock Purchase Plan (the "ESPP") provides our employees with the opportunity to purchase common stock through payroll deductions. Employees purchase stock semi-annually at a price that is 85% of the fair market value at certain plan-defined dates. As of December 31, 2009, the number of shares of common stock available for issuance was 300,000. As of December 31, 2009, the plan had not been implemented.

The 2003 Stock Option Plan (the"2003 Plan") provides for grants of shares of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. Under the 2003 plan, an ISO grant is granted at the market value of our common stock at the date of the grant and a non-ISO is granted at a price not to be less than 85% of the market value of the common stock. These options have a term of up to 10 years and vest over a schedule determined by the Board of Directors, generally over a five year period. The amended 2003 Plan provides for an annual increase in common stock available for issuance by 3% of the diluted shares outstanding on January 1 of each year for a period of 9 years which commenced January 1, 2005. In 2009, no options were issued from the 2003 Plan.

The 2008 Incentive Stock Plan ("the 2008 Plan") adopted and approved by the Board of Directors on November 5, 2008 provides for shares of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. As of December 31, 2009, there were 498,533 shares of common stock issued to consultants and there were 1,278,841 options granted from this plan.

The Company accounts for the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors by estimating the fair value of stock awards at the date of grant using the Black-Scholes option valuation model. Stock-based compensation expense is reduced for estimated forfeitures and is amortized over the vesting period using the straight-line method.

Results of Operations

The following table presents certain financial data as a percentage of total revenue for the periods indicated. Our historical operating results are not necessarily indicative of the results for any future period.

	As a Percentage of Total Revenue Year Ended December 31,		
	2009 (Restated)	2008	2007
Consolidated Statements of Operations Data:			
Revenue	100%	100%	100%
Cost of goods sold	43	57	72
Gross profit	57	43	28
Operating expenses:			
Research and development	8	11	17
Selling, general and administrative	29	33	38
Total operating expenses	37	44	55
Income (loss) from operations	20	(1)	(27)
Other expense	(29)	(9)	(78)
Loss before provision for income taxes	(9)	(10)	(105
Provision for income taxes	—	—	—
Net loss	(9)%	(10)%	(105)%

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues

Revenues increased by approximately $5.1 million to a total of approximately $23.8 million for the year ended December 31, 2009 from approximately $18.7 million for the year ended December 31, 2008, representing an increase of 27%. The increase in revenue was due to increased customer demand.

For the year ended December 31, 2009, product revenue increased approximately $4.0 million as compared to the year ended December 31, 2008. The 26% increase was due to higher customer demand and product availability for our OLED displays and z800s. For the year ended December 31, 2009, contract revenue increased 34% or approximately $1.0 million as compared to the year ended December 31, 2008. The increase was a result of an increase in the research and development projects in 2009 as compared to 2008.

Cost of Goods Sold

Cost of goods sold includes direct and indirect costs associated with production. Cost of goods sold for the year ended December 31, 2009 were approximately $10.2 million as compared to approximately $10.7 million for the year ended December 31, 2008, a decrease of approximately $0.5 million. Cost of goods sold as a percentage of revenues improved to 43% for the year ended December 31, 2009 from 57% for the year ended December 31, 2008. Cost of goods is comprised primarily of material and labor cost with the labor portion of cost of goods mostly fixed. Improved manufacturing yield and lower royalty expense resulted in a lower cost of goods sold.

The following table outlines product, contract and total gross profit and related gross margins for the years ended December 31, 2009 and 2008 (dollars in thousands):

	For the Year ended December 31,			
	2009		2008	
Product revenue gross profit	$11,910		$6,644	
Product revenue gross margin	60	%	42	%
Contract revenue gross profit	$1,737		$1,422	
Contract revenue gross margin	43	%	47	%
Total gross profit	$13,647		$8,066	
Total gross margin	57	%	43	%

The gross profit for the year ended December 31, 2009 was approximately $13.6 million as compared to approximately $8.1 million for the year ended December 31, 2008, an increase of $5.6 million. Gross margin was 57% for the year ended December 31, 2009 up from 43% for the year ended December 31, 2008. The increase was mainly attributable to our increase in product gross margin of 18% offset by a reduction in the contract gross margin of 4%.

The product gross profit for the year ended December 31, 2009 was approximately $11.9 million as compared to approximately $6.6 million for the year ended December 31, 2008, an increase of $5.3 million. Product gross margin was 60% for the year ended December 31, 2009 up from 42% for the year ended December 31, 2008. The increase was attributed to the fuller utilization of our fixed production overhead due to improved yields and a reduction in royalty expense. See Note 13 of the Consolidated Financial Statements - Commitments and Contingencies for further discussion on the royalty expense.

The contract gross profit for the year ended December 31, 2009 was approximately $1.7 million as compared to approximately $1.4 million for the year ended December 31, 2008, an increase of $0.3 million. Contract gross margin was 43% for the year ended December 31, 2009 down from 47% for the year ended December 31, 2008. The contract gross margin is dependent upon the mix of costs, internal versus external third party costs, with the external third party costs causing a lower gross margin and reducing the contract gross profit.

Research and Development Expenses

Research and development expenses include salaries, development materials and other costs specifically allocated to the development of new microdisplay products, OLED materials and subsystems. Research and development expenses for the year ended December 31, 2009 were relatively unchanged at approximately $2.0 million as compared to approximately $2.1 million for the year ended December 31, 2008, a decrease of approximately $0.1 million. The decrease was primarily due to an increase in the allocation of research and development resources and expenses related to contracts to cost of goods sold and a reduction of expense due to the streamlining of the research and development effort in the subsystems area offset by an increase in internal product development costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist principally of salaries, fees for professional services including legal fees, as well as other marketing and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2009 were approximately $6.9 million as compared to approximately $6.3 million for the year ended December 31, 2008, an increase of approximately $0.6 million. The increase is primarily related to an increase in personnel costs, shareholder related costs, professional fees and tradeshow costs offset by a decrease in reserve for allowance for bad debts and rent expense.

Other (Expense) Income

Other income (expense), net consists primarily of interest income earned on investments, interest expense related to the secured debt, income from the licensing of intangible assets and expense applicable to the change in fair value of the warrant liability .

For the year ended December 31, 2009, interest expense was approximately $466 thousand as compared to approximately $2.0 million, respectively, for the year ended December 31, 2008. For the year ended December 31, 2009, the interest expense associated with debt was approximately $63 thousand, loan fees associated with the new line of credit was approximately $13 thousand, interest on liquidated damages of approximately $28 thousand and the amortization of the deferred costs associated with the debt was approximately $362 thousand. Interest expense for the year ended December 31, 2008 was comprised of interest associated with debt of approximately $0.7 million; the amortization of the deferred costs associated with debt of approximately $1.3 million; the amortization of the debt discount associated with debt of approximately $25 thousand; and other expenses of approximately $2 thousand. The decrease in interest expense was primarily a result of carrying a lower balance on our line of credit, the repayment and conversion of the 8% Senior Secured Convertible Notes in December 2008, and lower amortization of deferred debt issuance costs.

Other income for the year ended December 31, 2009 was approximately $67 thousand as compared to approximately $400 thousand for the year ended December 31, 2008. The other income for the year ended December 31, 2009 was interest income of approximately $6 thousand; approximately $4 thousand of miscellaneous income; and approximately $57 thousand for a settlement of a liability. Other income for the year ended December 31, 2008 was interest income of approximately $11 thousand; approximately $18 thousand of income from equipment salvage; gain on the license of intangibles of approximately $557 thousand (see Note 13 of the Consolidated Financial Statements - Commitments and Contingencies); and offset by approximately $186 thousand of liquidated damages expense related to registration payment arrangements.

Change in Fair Value of Warrant Liability. In accordance with ASC 815, adopted January 1, 2009, certain warrants previously classified within equity are reclassified as liabilities. As a result of this reclassification, the accounting guidance requires revaluation of this liability every reporting period. The fair value of the liability at December 31, 2009 was measured by using the Monte Carlo Simulation model. The revaluation resulted in a charge of $6.5 million for the year ended December 31, 2009. This revaluation is a non-cash item and had no impact on our cash balances, operations, or operating income.

Off-Balance Sheet Arrangements

We have no off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenues

Revenues increased by approximately $1.1 million to a total of approximately $18.7 million for the year ended December 31, 2008 from approximately $17.6 million for the year ended December 31, 2007, representing an increase of 7%. This increase was primarily due to increased contract revenue from research and development projects. Our contract revenue increased approximately $1.6 million while our product revenue decreased approximately $0.5 million.

Cost of Goods Sold

Cost of goods sold includes direct and indirect costs associated with production of our products. Cost of goods sold for the years ended December 31, 2008 and 2007 was approximately $10.7 million and $12.6, respectively, a decrease of $1.9 million. The decrease included an inventory write-off of approximately $0.4 million in 2007 related to a non-recurring production issue that occurred during the fourth quarter of 2007. An increase in yield in 2008 accounted for the remaining difference. Cost of goods sold as a percentage of revenues improved from 72% in 2007 to 57% in 2008. Cost of goods is comprised primarily of material and labor cost. The labor portion of cost of goods is mostly fixed. Increased display production output volume and improved manufacturing yield results in a lower cost of goods sold percentage.

The following table outlines product, contract and total gross profit and related gross margins for the years ended December 31, 2008 and 2007 (dollars in thousands):

	For the Year ended December 31, 2008		2007	
Product revenue gross profit	$6,644		$4,280	
Product revenue gross margin	42	%	26	%
Contract revenue gross profit	$1,422		$646	

Contract revenue gross margin	47	%	47	%
Total gross profit	$8,066		$4,926	
Total gross margin	43	%	28	%

The gross profit was approximately $8.1 million for the year ended December 31, 2008 and the gross profit was approximately $4.9 million for the year ended December 31, 2007. The gross margin was 43% for the year ended December 31, 2008 up from 28% for the year ended December 31, 2007. The gross margin improvement was attributed primarily to improved manufacturing yield.

The product gross profit for the year ended December 31, 2008 was approximately $6.6 million as compared to approximately $4.3 million for the year ended December 31, 2008, an increase of $2.3 million. Product gross margin was 42% for the year ended December 31, 2008 up from 26% for the year ended December 31, 2007. The increase was attributed to the fuller utilization of our fixed production overhead due to improved yields and the 2007 inventory write-off related to a non-recurring production issue.

The contract gross profit for the year ended December 31, 2008 was approximately $1.4 million as compared to approximately $0.6 million for the year ended December 31, 2007, an increase of $0.8 million. Contract gross margin was 47% for each of the years ended December 31, 2008 and 2007.

Research and Development Expenses

Research and development expenses include salaries, development materials and other costs specifically allocated to the development of new microdisplay products, OLED materials and subsystems. Research and development expenses for the year ended December 31, 2008 were approximately $2.1 million as compared to approximately $2.9 million for the year ended December 31, 2007, a decrease of $0.8 million. The 29% decrease was due to the re-deployment of research and development personnel to production contract services which are included in cost of goods sold and to a streamlining of the research and development effort in the subsystems area which resulted in expense reductions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries and related expenses for employees in the functional areas of business development, finance, information technology, quality assurance and other corporate expenses. This includes fees for professional services, such as audit and legal fees associated with audit, SEC filings, and other public company related matters, as well as other marketing and administrative expenses. General and administrative expenses decreased by approximately $0.3 million to a total of approximately $6.3 million for the year ended December 31, 2008 from $6.6 million for the year ended December 31, 2007. The 5% decrease was primarily related to a reduction of marketing expenses, personnel costs and other cost reductions.

Other (Expense) Income

Other (expense) income, net consists primarily of interest income earned on investments, interest expense related to the secured debt, loss from the change in the derivative liability, loss on the extinguishment of debt and other income from the licensing of intangible assets.

For the year ended December 31, 2008, interest expense was approximately $2.0 million as compared to $3.1 million for the year ended December 31, 2007. Interest expense for the year ended December 31, 2008 was comprised of interest associated with debt of approximately $0.7 million; the amortization of the deferred costs associated with debt of approximately $1.3 million; the amortization of the debt discount associated with debt of $25 thousand; and other expenses of approximately $2 thousand. Interest expense for 2007 consisted of interest expense associated with debt of approximately $744 thousand; the amortization of the deferred costs associated with debt of approximately $418 thousand; and the amortization of the debt discount associated with the debt of approximately $1.9 million. The majority of the decrease in interest expense in 2008 as compared to 2007 was a reduction in the amortization of debt discount associated with debt of $1.9 million offset by an increase in the amortization of deferred costs associated with debt of $0.9 million.

For the year ended December 31, 2008, the change in the derivative liability was $0 compared to a loss of approximately $853 thousand for the year ended December 31, 2007. The loss on extinguishment of debt was $0 for the year ended December 31, 2008 as compared to a loss of $10.7 million for the year ended December 31, 2007.

Other income for the year ended December 31, 2008 was approximately $400 thousand which consisted of interest income of approximately $11 thousand; approximately $18 thousand of income from equipment salvage; gain on the license of intangibles of $557 thousand; and offset by approximately $186 thousand of liquidated damages expense related to registration payment arrangements as compared to approximately $815 thousand for the year ended December 31, 2007 which consisted of interest income of approximately $43 thousand, a gain on the license of intangible assets of $869 thousand, offset by a write-off of a miscellaneous receivable of $103 thousand, and other income of $7 thousand. See Note 13 to the Consolidated Financial Statements - Commitments and Contingencies.

Liquidity and Capital Resources

As of December 31, 2009, we had approximately $5.3 million of cash as compared to approximately $2.4 million as of December 31, 2008. The increase of approximately $2.9 million was due to cash provided by operations of approximately $5.3 million offset by cash used for financing and investing activities of approximately $2.4 million.

For the year ended December 31, 2009, net cash provided by operating activities was approximately $5.3 million, attributable to our net loss of approximately $ 2.3 million and approximately $0.5 million from the change in operating assets and liabilities and offset by non-cash expenses of approximately $8.1 million. Net cash provided by operating activities for the year ended December 31, 2008 was approximately $138 thousand, attributable to improved net loss of approximately $1.9 million, approximately $1.1 million from the change in operating assets and liabilities and offset by non cash expenses of approximately $3.0 million.

For the year ended December 31, 2009, net cash used in investing activities was approximately $721 thousand primarily related to the purchase of equipment. Net cash used in investing activities for the year ended December 31, 2008 was approximately $311 thousand primarily related to the purchase of equipment.

Net cash used by financing activities for the year ended December 31, 2009 was approximately $1.7 million primarily to pay down the line of credit. Net cash provided by financing activities during the year ended December 31, 2008 was approximately $1.9 million and was comprised of approximately $5.5 million from proceeds of sale of common and preferred stock, net of issuance costs and approximately $1.9 million from proceeds from the line of credit offset by the payments of long-term debt of approximately $5.5 million.

As we have reported, our business continues to experience revenue growth. This trend, if it continues, may result in higher accounts receivable levels and may require increased production and/or higher inventory levels. We anticipate that our cash needs to fund these requirements as well as other operating or investing cash requirements over the next twelve months will be less than our current cash on hand and the cash we anticipate generating from operations. We anticipate that we will not require additional funds over the next twelve months other than perhaps for discretionary capital spending. If unanticipated events arise during the next twelve months, we believe we can raise sufficient funds. However, if we are unable to obtain sufficient funds, we may have to reduce the size of our organization and/or be forced to reduce and/or curtail our production and operations, all of which could have a material adverse impact on our business prospects.

Contractual Obligations

The following chart describes the outstanding contractual obligations of eMagin as of December 31, 2009 (in thousands):

	Payments due by period			
	Total	1 Year	2-3 Years	4-5 Years
Operating lease obligations	$ 4,913	$ 1,094	$ 2,276	$ 1,543
Line of credit	40	40	—	—
Purchase obligations (a)	3,066	3,066	—	—
Total	$ 8,019	$ 4,200	$ 2,276	$ 1,543

(a) The majority of purchase orders outstanding contain no cancellation fees except for minor re-stocking fees.

Effect of Recently Issued Accounting Pronouncements

See Note 3 of the Consolidated Financial Statements in Item 8 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market rate risk

We are exposed to market risk related to changes in interest rates and foreign currency exchanges rates.

Interest rate risk

We hold our assets in cash and cash equivalents. We do not hold derivative financial instruments or equity securities.

Foreign currency exchange rate risk

Our revenue and expenses are denominated in U.S. dollars. We have conducted some transactions in foreign currencies and expect to continue to do so; we do not anticipate that foreign exchange gains or losses will be significant. We have not engaged in foreign currency hedging to date.

Our international business is subject to risks typical of international activity, including, but not limited to, differing economic conditions; change in political climates; differing tax structures; and other regulations and restrictions. Accordingly, our future results could be impacted by changes in these or other factors.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statement Index

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
eMagin Corporation

We have audited the accompanying consolidated balance sheets of eMagin Corporation (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity (capital deficit) and cash flows for each of the years in the three-year period ended December 31, 2009. Our audits also included the financial statement schedule - Valuation and Qualifying Accounts - listed in the index at item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of eMagin Corporation as of December 31, 2009 and 2008, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying financial statements as of and for the year ended December 31, 2009 have been restated to classify certain warrants as liabilities and to reflect the change in fair value of these warrants in the statement of operations, as more fully described in Note 18 to the financial statements.

EisnerAmper LLP

New York, New York
October 6, 2011

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eMAGIN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2009 (Restated) See Note 18	2008
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,295	$ 2,404
Investments – held to maturity	100	97
Accounts receivable, net	4,563	3,643
Inventory	2,179	2,374
Prepaid expenses and other current assets	687	796
Total current assets	12,824	9,314
Equipment, furniture and leasehold improvements, net	1,021	381
Intangible assets, net	43	47
Other assets	92	—
Deferred financing costs, net	—	362
Total assets	$ 13,980	$ 10,104
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,122	$ 1,026
Accrued compensation	956	837
Other accrued expenses	791	804
Advance payments	211	694
Deferred revenue	238	164
Current portion of debt	—	1,691
Warrant liability	34	—
Other current liabilities	891	798
Total current liabilities	4,243	6,014
Warrant liability	6,844	—
Total liabilities	11,087	6,014
Commitments and contingencies (Note 13)		
Redeemable common stock: 522,500 shares redeemable as of December 31, 2008	—	429
Shareholders' equity:		

Preferred stock, $.001 par value: authorized 10,000,000 shares:		
Series B Convertible Preferred stock, (liquidation preference of $5,739,000) stated value $1,000 per share, $.001 par value: 10,000 shares designated and 5,739 issued and outstanding as of December 31, 2009 and 2008	—	—
Common stock, $.001 par value: authorized 200,000,000 shares, issued and outstanding, ———————————16,967,244 shares in 2009 and 15,213,959 shares, net of redeemable common stock, in 2008	17	15
Additional paid in capital	193,358	204,818
Accumulated deficit	(190,482)	(201,172)
Total shareholders' equity	2,893	3,661
Total liabilities and shareholders' equity	$ 13,980	$ 10,104

See notes to Consolidated Financial Statements.

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eMAGIN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2009 (Restated) See Note 18	2008	2007
	(In thousands, except per share data)		
Revenue:			
Product	$19,775	$15,730	$16,169
Contract	4,047	3,009	1,385
Total revenue, net	23,822	18,739	17,554
Cost of goods sold:			
Product	7,865	9,086	11,889
Contract	2,310	1,587	739
Cost of goods sold	10,175	10,673	12,628
Gross profit	13,647	8,066	4,926
Operating expenses:			
Research and development	1,996	2,081	2,949
Selling, general and administrative	6,900	6,254	6,591
Total operating expenses	8,896	8,335	9,540
Income (loss) from operations	4,751	(269)	(4,614)
Other expense:			
Interest expense	(466)	(1,990)	(3,087)
Loss on extinguishment of debt	—	—	(10,749)
Loss on warrant derivative liability	—	—	(853)
Change in the fair value of warrant liability	(6,533)	—	—
Other income, net	67	400	815
Total other expense, net	(6,932)	(1,590)	(13,874)
Loss before provision for income taxes	(2,181)	(1,859)	$(18,488)
Provision for income taxes	90	—	—
Net loss	$(2,271)	$(1,859)	$(18,488)
Loss per common share, basic	$(0.14)	$(0.13)	$(1.59)
Loss per common share, diluted	$(0.14)	$(0.13)	$(1.59)
Weighted average number of shares outstanding:			
Basic	16,344	14,175	11,633
Diluted	16,344	14,175	11,633

See notes to Consolidated Financial Statements.

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eMAGIN CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CAPITAL DEFICIT)
(In thousands)

	Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amount	Additional Paid-in Capital (Restated) See Note 18	Accumulated Deficit (Restated) See Note 18	Total Shareholders' Equity (Capital Deficit) (Restated) See Note 18
Balance, December 31, 2006	—	$ —	10,341	$ 10	179,651	$ (180,825)	$ (1,164)
Debt conversion	—	—	797	1	310	—	311
Issuance of common stock for services	—	—	1,310	1	1,129	—	1,130
Exercise of common stock warrants	—	—	10	—	3	—	3
Stock-based compensation	—	—	—	—	1,652	—	1,652
Expiration of derivative liability-warrants	—	—	—	—	2,653	—	2,653
Beneficial conversion premium	—	—	—	—	5,078	—	5,078
Fair value of warrants issued	—	—	—	—	4,655	—	4,655
Net loss	—	—	—	—		(18,488)	(18,488)
Balance, December 31, 2007	—	$ —	12,458	$ 12	$ 195,131	$ (199,313)	$ (4,170)
Sale of preferred stock, net of issuance costs	4	—	—	—	3,933	—	3,933
Sale of common stock, net of issuance costs	—	—	1,587	2	1,578	—	1,580
Debt conversion	2	—	718	1	1,956	—	1,957
	—	—	326	—	303	—	303

Issuance of common stock for services							
Stock-based compensation	—	—	—	—	928	—	928
Put option waiver	—	—	125		150	—	150
Fair value of warrants issued	—	—	—	—	883	—	883
Deemed dividend, put option	—	—	—	—	(44)	—	(44)
Net loss	—	—	—	—	—	(1,859)	(1,859)
Balance, December 31, 2008	6	$—	15,214	$ 15	$ 204,818	$ (201,172)	$ 3,661
Cumulative effect of change in accounting principle	—	—	—	—	(15,091)	12,961	(2,130)
Fair value of warrants reclassified from liability to equity upon exercise	—	—	—	—	1,785	—	1,785
Issuance of common stock for services	—	—	499	—	304	—	304
Expiration of put options	—	—	522	1	428	—	429
Exercise of common stock warrants	—	—	727	1	(1)	—	—
Exercise of common stock options	—	—	5	—	5	—	5
Stock-based compensation	—	—	—	—	1,110	—	1,110
Net loss	—	—	—	—	—	(2,271)	(2,271)
Balance, December 31, 2009	6	$—	16,967	$ 17	$ 193,358	$ (190,482)	$ 2,893

See notes to Consolidated Financial Statements.

eMAGIN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2009 (Restated) See Note 18	2008	2007
	(In thousands except share data)		
Cash flows from operating activities:			
Net loss	$ (2,271)	$ (1,859)	$ (18,488)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	82	223	392
Amortization of deferred financing and waiver fees	362	1,295	418
(Reduction) increase of provision for sales returns and doubtful accounts	(273)	499	(79)
Stock based compensation	1,110	928	1,652
Amortization of common stock issued for services	233	95	1,130
Amortization of discount on notes payable	—	25	1,925
Loss on warrant derivative liability	—	—	853
Loss on extinguishment of debt	—	—	10,749
Gain on settlement	(38)	—	—
Change in the fair value of warrant liability	6,533	—	—
Write-off of miscellaneous receivable	—	—	103
Changes in operating assets and liabilities:			
Accounts receivable	(647)	(1,759)	(1,390)
Inventory	195	(559)	670
Prepaid expenses and other current assets	5	399	1
Advance payments	(483)	659	(409)
Deferred revenue	74	(15)	53
Accounts payable, accrued compensation, and accrued expenses	285	429	(381)
Other current liabilities	93	(222)	858
Net cash provided by (used in) operating activities	5,260	138	(1,943)
Cash flows from investing activities:			
Purchase of equipment	(718)	(308)	(16)
Proceeds from maturity of (purchase of) investments – held to maturity	(3)	(3)	77
Net cash (used in) provided by investing activities	(721)	(311)	61
Cash flows from financing activities:			
Proceeds from sale of preferred stock, net of issuance costs	—	3,933	—
Proceeds from sale of common stock, net of issuance costs	—	1,580	—
Proceeds from exercise of stock options and warrants	5	—	3
Borrowings from line of credit	—	1,934	1,108
Proceeds from long-term debt	—	—	500
Payments related to deferred financing costs	—	(117)	(368)
Payments of debt and capitalized lease obligations	(1,653)	(5,466)	(63)
Net cash (used in) provided by financing activities	(1,648)	1,864	1,180
Net increase (decrease) in cash and cash equivalents	2,891	1,691	(702)
Cash and cash equivalents, beginning of year	2,404	713	1,415
Cash and cash equivalents, end of year	$ 5,295	$ 2,404	$ 713

Cash paid for interest	$	107	$	702	$	426
Cash paid for taxes	$	138	$	44	$	78
Supplemental non-cash transactions:						
Issuance of common stock for services charged to prepaid expenses	$	304	$	202	$	—
Issuance of 726,910 shares of common stock for cashless exercise of 2.9 million warrants	$	—	$	—	$	—
Conversion of debt to common stock	$	—	$	251	$	311
Conversion of debt to convertible preferred stock – series B	$	—	$	1,706	$	—
Issuance of 485,000 and 162,500 shares of common stock for deferred financing costs in 2008 and 2007, respectively.	$	—	$	340	$	195
Issuance of 1,120,000 shares of common stock underlying warrants for deferred financing costs in 2008.	$	—	$	715	$	—

See notes to Consolidated Financial Statements.

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eMAGIN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - NATURE OF BUSINESS

eMagin Corporation and its wholly owned subsidiary (the "Company") designs, develops, manufactures, and markets OLED on silicon microdisplays and virtual imaging products which utilize OLED microdisplays. The Company's products are sold mainly in North America, Asia, and Europe.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

In this Amended 10-K, the Company restated its previously issued consolidated financial statements as of and for the year ended December 31, 2009 to correct errors in the accounting for certain warrants as discussed in Note 18, "Restatement".

Principles of consolidation

The accompanying consolidated financial statements include the accounts of eMagin Corporation and its wholly owned subsidiary. All intercompany transactions have been eliminated in consolidation.

Use of estimates

In accordance with accounting principles generally accepted in the United States of America, management utilizes certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Revenue and cost recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, selling price is fixed or determinable and collection is reasonably assured. Product revenue is generally recognized when products are shipped to customers, net of allowances for anticipated returns. The Company records a reserve for estimated sales returns, which is reflected as a reduction of revenue at the time of revenue recognition. The Company defers revenue recognition on products sold directly to the consumer with a maximum thirty day right of return. Revenue is recognized upon the expiration of the right of return.

The Company also earns revenues from certain R&D activities (contract revenues) under both firm fixed-price contracts and cost-type contracts, including some cost-plus-fee contracts. 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.

Shipping and handling fees and costs

Shipping and handling fees billed to customers are netted against the shipping and handling costs which are recorded as cost of sales.

Product warranty

The Company offers a one-year product replacement warranty. In general, the standard policy is to repair or replace the defective products. The Company accrues for estimated returns of defective products at the time revenue is recognized based on historical activity as well as for specific known product issues. The determination of these accruals requires the Company to make estimates of the frequency and extent of warranty activity and estimate future costs to replace the products under warranty. If the actual warranty activity and/or repair and replacement costs differ significantly from these estimates, adjustments to recognize additional cost of revenue may be required in future periods.

Research and development expenses

Research and development costs are expensed as incurred.

Cash and cash equivalents

All highly liquid instruments with an original maturity of three months or less at the date of purchase are considered to be cash equivalents.

Investments-held to maturity

Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost on the accompanying balance sheet.

Accounts receivable

The majority of the Company’s commercial accounts receivable are due from Original Equipment Manufacturers ("OEM’s”). Credit is extended based on an evaluation of a customer’s financial condition and, generally, collateral is not required. Accounts receivable are payable in U.S. dollars, are due within 30-90 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Any account outstanding longer than the contractual payment terms is considered past due.

Allowance for doubtful accounts

The allowance for doubtful accounts reflects an estimate of probable losses inherent in the accounts receivable balance. The allowance is determined based on a variety of factors, including the length of time receivables are past due, historical experience, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. The Company will record a specific reserve for individual accounts when the Company becomes aware of a customer's inability to meet its financial obligations, deterioration in the customer's operating results or financial position, or deterioration in the customer’s credit history. If circumstances related to customers change, the Company would further adjust estimates of the recoverability of receivables.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. The Company regularly reviews inventory quantities on hand, future purchase commitments with the Company’s suppliers, and the estimated utility of the inventory. If the Company review indicates a reduction in utility below carrying value, the inventory is reduced to a new cost basis.

Equipment, furniture and leasehold improvements

Equipment, furniture and leasehold improvements are stated at cost. Depreciation on equipment is calculated using the straight-line method of depreciation over its estimated useful life. Amortization of leasehold improvements is calculated by using the straight-line method over the shorter of their estimated useful lives or lease terms. Expenditures for maintenance and repairs are charged to expense as incurred.

The Company performs impairment tests on its long-lived assets when circumstances indicate that their carrying amounts may not be recoverable. If required, recoverability is tested by comparing the estimated future undiscounted cash flows of the asset or asset group to its carrying value. Impairment losses, if any, are recognized based on the excess of the assets' carrying amounts over their estimated fair values.

Intangible assets

The Company’s intangible assets consist of patents that are amortized over their estimated useful lives of fifteen years using the straight line method. Total intangible amortization expense was approximately $4 thousand for each of the years ended December 31, 2009, 2008, and 2007, respectively. The accumulated amortization as of December 31, 2009 was $22 thousand.

Advertising

Costs related to advertising and promotion of products is charged to sales and marketing expense as incurred. Advertising expense was $0 for each of the years ended December 31, 2009 and 2008, and $10 thousand for the year ended December 31, 2007.

Income taxes

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. The effect on deferred tax assets and liabilities of changes in tax rates will be recognized as income or expense in the period that the change occurs. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. Changes in circumstances, assumptions and clarification of uncertain tax regimes may require changes to any valuation allowances associated with the Company’s deferred tax assets.

Due to the Company’s operating loss carryforwards, all tax years remain open to examination by the major taxing jurisdictions to which the Company is subject. In the event that the Company is assessed interest or penalties at some point in the future, it will be classified in the financial statements as tax expense.

Net loss per common share

Basic loss per share (“Basic EPS”) is computed by dividing net loss by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share (“Diluted EPS”) is computed by dividing the net loss by the weighted average number of common shares outstanding during the reporting period while also giving effect to all potentially dilutive common shares that were outstanding during the reporting period.

In accordance with ASC 260, entities that have issued securities other than common stock that participate in dividends with the common stock (“participating securities”) are required to apply the two-class method to compute basic EPS. The two-class method is an earnings allocation method under which EPS is calculated for each class of common stock and participating security as if all such earnings had been distributed during the period. On December 22, 2008, the Company issued Convertible Preferred Stock – Series B which participates in dividends with the Company’s common stock and is therefore considered to be a participating security. However, the participating convertible preferred stock is not required to absorb any net loss. Thus, the Company calculates EPS using the two-class method. The Company does not intend to pay dividends on its common or preferred stock.

The Company uses the more dilutive method of calculating the diluted earnings per share, either the two class method or “if-converted” method. Under the “if-converted” method, the convertible preferred stock is assumed to have been converted into common shares at the beginning of the period.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share and per share data):

	For the Years Ended		
	2009	2008	2007
Basic and Diluted earnings per share:			
Numerator:			
Loss allocated to common shares	$ (2,271)	$ (1,859)	$ (18,488)
Loss allocated to participating securities	—	—	—
Net loss	$ (2,271)	$ (1,859)	$ (18,488)
Denominator:			
Weighted average shares outstanding for basic and diluted earnings per share	16,343,650	14,175,220	11,633,367

The years ended December 31, 2009, 2008 and 2007 do not include options, warrants, convertible notes, redeemable stock, and participating convertible preferred stock to purchase common equivalent shares of 19,737,395 , 22,069,412 and 17,728,020, respectively, as their effect would be antidilutive.

Comprehensive loss

Companies are required to report all changes in equity during a period, except those resulting from investment by owners and distributions to owners, for the period in which they are recognized. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss) items, such as unrealized gains or losses on foreign currency translation adjustments. Comprehensive income (loss) must be reported on the face of the annual financial statements. The Company's operations did not give rise to any material items includable in comprehensive loss, which were not already in net loss for the years ended December 31, 2009, 2008, and 2007. Accordingly, the Company's comprehensive loss is the same as its net loss for the periods presented.

Stock-based compensation

The Company uses the fair value method of accounting for share-based compensation arrangements. The fair values of stock options are estimated at the date of grant using the Black-Scholes option valuation model. Stock-based compensation expense is reduced for estimated forfeitures and is amortized over the vesting period using the straight-line method. Compensation cost recognized for the years ended December 31, 2009, 2008, and 2007 includes a) compensation cost for all share-based compensation granted prior to, but not vested as of January 1, 2006, based on the estimated grant-date fair value estimated and b) compensation cost for all share-based compensation granted beginning January 1, 2006, based on the estimated grant-date fair value. The compensation cost was recognized using the straight-line attribution method.

Fair value of financial instruments

At December 31, 2009, the Company's cash, cash equivalents, accounts receivable, short-term investments and accounts payable are shown at cost which approximates fair value due to the short-term nature of these instruments. The Company measures the fair value of its warrants based on the Monte Carlo Simulation approach.

Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company’s cash and cash equivalents are deposited with financial institutions which, at times, may exceed federally insured limits. To date, the Company has not experienced any loss associated with this risk.

Note 3- RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2008, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. The new accounting guidance is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted.

In June 2008, the FASB provided accounting guidance that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and must be applied to all instruments outstanding on the date of adoption.

Effective January 1, 2009, the Company adopted Emerging Issue Task Force 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" or ASC 815, "Derivatives and Hedging – Contracts in Entity's Own Equity". As a result, warrants issued with anti-dilution provisions for the holder are no longer considered indexed to the Company's stock and must be accounted for as derivatives. Upon adoption of this accounting guidance on January 1, 2009, the Company recorded a cumulative effect adjustment based on the grant date fair value of the outstanding warrants at January 1, 2009 and the change in fair value of the warrant liability from the issuance date through January 1, 2009. These warrants are reclassified as liabilities and recorded at estimated fair value at each reporting date using the Monte Carlo Simulation approach. Changes in the liability from period to period are recorded in the Consolidated Statements of Operations.

The Company has recorded the change in fair value of the warrant liability as a component of other income and expense on the Consolidated Statements of Operations as the Company believes the amounts recorded relate to financing activities and not as a result of its operations.

The Company recorded the following cumulative effect of change in accounting principle pursuant to its adoption of ASC 815 as of January 1, 2009 (in thousands):

	Additional Paid-In Capital	Warrant Liability	Accumulated Deficit
Grant date fair value of Warrants	$ (15,091)	$ 15,091	$
Change in fair value of Warrants outstanding through January 1, 2009		(12,961)	12,961
Cumulative effect of change in accounting principle	$ (15,091)	$ 2,130	$ 12,961

The Company recorded other expense of $6,533 thousand for the net change in the fair value of the warrant liability during the twelve months ended December 31, 2009.

In April 2009, the FASB issued new accounting guidance which requires disclosures about fair value of financial instruments in interim financial information for periods ending after June 15, 2009. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued new accounting guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In February 2010, the FASB amended the guidance and removed the contradictions between the requirements of U.S. generally accepted accounting principles U.S. GAAP (“GAAP”) and the Securities Exchange Commission (“SEC”) filing rules. As a result public companies will no longer have to disclose the date of evaluation of subsequent events in both issued and revised financial statements.

In July 2009, the FASB Accounting Standards Codification (“Codification: or “ASC”) became the single source of authoritative nongovernmental GAAP except for additional authoritative rules and interpretive releases issued by the SEC. The Codification did not create any new GAAP standards but incorporated existing accounting and reporting standards into a new topical structure with a new referencing system to identify authoritative accounting standards, replacing the prior references to Statement of Financial Accounting Standards (“SFAS”), Emerging Issues Task Force (“EITF”), FASB Staff Position (“FSP”), etc. Authoritative standards included in the Codification are designated by their ASC topical reference, and new standards will be designated as Accounting Standards Updates (“ASU”), with a year and assigned sequence number. Beginning with the interim report for the third quarter of 2009, the Company adopted the Codification and it had no effect on its financial position, results of operations, or cash flows.

Note 4-Fair Value Measurement

The Company measures fair value in accordance with ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"). ASC 820 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – valued based on quoted prices at the measurement date for identical assets or liabilities trading in active markets.
Level 2 – quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.
Level 3 – valuations derived from valuation techniques in which one or more significant inputs are not readily observable.

Recurring Fair Value Estimates

The Company's recurring fair value measurements at December 31, 2009 were as follows (in thousands):

	Fair Value as of December 31, 2009	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Warrant liability, current	$ 34	$ —	$ —	$ 34
Warrant liability, long-term	$ 6,844	$ —	$ —	$ 6,844
Total Warrant liability	$ 6,878	$ —	$ —	$ 6,878

Note: Classification is based on warrant expiration date.

Recurring Level 3 Activity, Reconciliation and Basis for Valuation

The table below provides a reconciliation of the beginning and ending balances for the liabilities measured at fair value using significant unobservable inputs (Level 3) (in thousands).

Balance as of January 1, 2009	$ 2,130
Increase in fair value of warrants	6,548
Less: value of warrants expired	(15)
Less: value of warrants exercised	(1,785)
Balance as of December 31, 2009	$ 6,878

Changes in fair value of the warrant liability are included in other expense in the accompanying consolidated statements of operations.

The Company estimates the fair value of the warrant liability utilizing the Monte Carlo Simulation method. The use of this method assumes multiple probabilities. The following additional assumptions were used in the Monte Carlo Simulation model to determine the fair value of the warrant liability:

	December 31, 2009	January 1, 2009
Risk-free interest rate	0.06% - 2.69 %	0.11% - 1.55 %
Expected volatility	62.8% - 90.6 %	94.4 %
Expected life (in years)	0.25 – 4.0	0.02 - 5.0
Expected dividend yield	0 %	0 %

Note 5 - RECEIVABLES

Receivables consisted of the following (in thousands):

	December 31, 2009	December 31, 2008
Trade receivables	$ 5,147	$ 4,500
Less allowance for doubtful accounts	(584)	(857)
Net receivables	$ 4,563	$ 3,643

Note 6 - INVENTORY

The components of inventory were as follows (in thousands):

	December 31, 2009	December 31, 2008
Raw materials	$ 806	$ 1,109
Work in process	709	280
Finished goods	664	985
Total inventory	$ 2,179	$ 2,374

Note 7 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following (in thousands):

	December 31, 2009	December 31, 2008
Vendor prepayments	$ 266	$ 180
Other prepaid expenses*	421	383
Other current assets*	—	233
Total prepaid expenses and other current assets	$ 687	$ 796

*No individual amounts greater than 5% of current assets.

Note 8 – EQUIPMENT, FURNITURE AND LEASEHOLD IMPROVEMENTS

Equipment, furniture and leasehold improvements consist of the following (in thousands):

	December 31, 2009	December 31, 2008
Computer hardware and software	$ 1,046	$ 1,039
Lab and factory equipment	4,323	3,612
Furniture, fixtures, and office equipment	306	306
Assets under capital leases	66	66
Leasehold improvements	473	473
Total equipment, furniture and leasehold improvements	6,214	5,496
Less: accumulated depreciation	(5,193)	(5,115)
Equipment, furniture and leasehold improvements, net	$ 1,021	$ 381

Depreciation expense was $78 thousand, $219 thousand, and $388 thousand for the years ended December 31, 2009, 2008, and 2007, respectively. Assets under capital leases are fully amortized.

Note 9 - DEBT

Debt is as follows (in thousands):

	December 31, 2009	December 31, 2008
Current portion of debt:		
Other debt	$ —	$ 60

Line of credit		—	1,631
Total debt, net	$	—$	1,691

For the years ended December 31, 2009 and 2008, approximately $0.4 million and $1.3 million, respectively, of deferred debt issuance costs and waiver fees were amortized to interest expense. For the years ended December 31, 2009 and 2008, interest expense, includes interest paid or accrued, of approximately $76 thousand and $667 thousand, respectively, on outstanding debt.

Line of Credit

2009

At December 31, 2009, the Company had available a credit facility with Access Business Finance, LLC (“Access”) under which the Company may borrow up to a maximum of $3 million based on a borrowing base equivalent of 75% of eligible accounts receivable. The interest on the line of credit is equal to the Prime Rate plus 4.00% but may not be less than 7.25% with a minimum monthly interest payment of $5,000. The term of the agreement with Access is for one year and automatically renews for successive one year terms unless, at least 60 days prior to the end of the current term, the Company gives Access prior written notice of its intent not to renew or if Access, at least ten days prior to the end of the current term, gives the Company written notice of its intent not to renew. The renewal date is September 1, 2010 and the fees for renewing the credit facility are $25,000. The Company’s obligations under the agreement are secured by its assets. The Company paid $25,000 in loan fees to Access which were charged to prepaid expense and will be amortized over the life of the Agreement. As of December 31, 2009, the Company had not borrowed on its line of credit.

Prior to Access, the Company had a line of credit with Moriah Capital, L. P. (“Moriah”) which matured on August 7, 2009 and was not renewed.

2008

On August 7, 2007, the Company entered into a loan agreement with Moriah Capital, L.P. (“Moriah”) and established a revolving line of credit (the “Loan”) of $2.5 million. The Company was permitted to borrow an amount not to exceed 90% of its domestic eligible accounts receivable and 50% of its eligible inventory capped at $600 thousand. As part of the transaction, the Company issued 162,500 shares of unregistered common stock valued at $195 thousand and paid a servicing fee of $82.5 thousand to Moriah which were amortized to interest expense over the life of the agreement. In conjunction with entering into this loan and issuing unregistered common stock, the Company granted Moriah registration rights. In addition, the Company granted Moriah a put option pursuant to which Moriah can sell to the Company the 162,500 shares of its common stock for $195,000, or prorated for any portion thereof for one year from the issue date (“the 2007 Put Option”). The Loan was convertible into shares of the Company’s common stock pursuant to the terms of the Loan Conversion Agreement. The Loan was to mature on August 7, 2008, however Moriah extended the maturity date to August 20, 2008 when the loan agreement was further amended as explained below.

On January 30, 2008, the Company amended and restated its Loan agreement (“Amended Loan Agreement”) with Moriah. The Amended Loan Agreement’s borrowing base calculation was modified to include 70% of eligible foreign accounts receivable. The Amended Loan Agreement eliminated the optional conversion of principal up to $2.0 million into common stock. In connection with the Amended Loan Agreement, the Company entered into a Warrant Issuance Agreement and issued a Warrant to purchase 750,000 shares of its common stock at a price of $1.50 per share with an expiration date of January 29, 2013.

The Amended Loan Agreement has specific terms to which the Company must comply including (a) maintaining a lockbox account into which payments from related accounts receivable must be deposited, (b) periodic certifications as to borrowing base amounts equaling or exceeding net balances outstanding under the Line of Credit, and (c) a requirement that a registration statement with respect to shares held or to be issued to the lender be filed within thirty days of January 30, 2008. A delay in establishing the required lockbox account created a technical default under the Line of Credit agreement. Similarly, the production and subsequent discovery of defective displays resulted in an inadvertent overstatement of inventory during December 2007, January 2008 and early February 2008 that created a technical default under the agreement. Finally, the Company was not able to complete the registration of shares within the thirty day timeframe mandated in the amended agreement. On March 25, 2008 the Company received a waiver from the lender (a) waiving compliance with the lockbox account requirement through March 14, 2008, (b) waiving compliance with the borrowing base requirement in so far as it related exclusively to the defective displays inadvertently included in inventory, and (c) extending the period for filing a registration statement for certain shares held or to be issued to the lender until April 29, 2008. The Company established a lockbox account by March 14, 2008 and filed a registration statement with the SEC on April 29, 2008.

Effective March 25, 2008, the Company amended the Warrant Issuance Agreement (“Amended Warrant Agreement”) with Moriah. In connection with such amendment, the Company issued a waiver fee in the form of a Warrant to purchase an additional 250,000 shares of its common stock at a price of $1.50 expiring March 25, 2013.

The Company determined the fair value of the 1,000,000 warrants to be $729 thousand of which $168 thousand was expensed immediately and $561 thousand was amortized to interest expense over the life of the loan. The following assumptions were used to determine the fair value of the warrants: dividend yield of 0%; risk free interest rates of 2.61 % and 2.96%; expected volatility of 90.9% and 92.3%; and expected contractual term of 5 years.

The Company and Moriah entered into Amendment No. 3 to the Loan and Security Agreement dated August 20, 2008 (the "Amendment No. 3"). Pursuant to Amendment No. 3, the Company issued Moriah an Amended and Restated Revolving Loan Note (the "Amended Note") and the maturity date was extended to August 7, 2009. The Company paid Moriah $85 thousand in servicing fees which were amortized to interest expense over the life of the agreement.

Pursuant to Amendment No. 3, the following changes were made to the Loan: the maximum amount the Company can borrow was increased to $3 million; the borrowing base calculation was modified to increase eligible foreign accounts receivable to 80% and increased the eligible inventory to the lesser of 70% or $800 thousand; and financial covenants were added.

The Company issued Moriah a warrant, which terminates on August 7, 2013, to purchase up to 370,000 shares of the Company's common stock at an exercise price of $1.30 per share. The Company determined the fair value of the warrants to be approximately $154 thousand which was recorded as a deferred debt issuance cost. The following assumptions were used to determine the fair value of the warrants: dividend yield of 0%; risk free interest rates of 3.16 %; expected volatility of 87.7%; and expected contractual term of 5 years. The deferred debt issuance costs were amortized to interest expense over the life of the loan.

Pursuant to Amendment No. 3, the Company and Moriah, also, entered into an Amended and Restated Securities Issuance Agreement. The Company issued 485,000 shares of unregistered common stock valued at approximately $340 thousand which was recorded as a deferred debt issuance cost and was amortized to interest expense over the life of the agreement. In addition, the holders of the Amended 8% Notes and the investors in the Purchase Agreement (See Note 11 – Shareholders' Equity) consented to the Amended Note and received a total of 144,000 shares of unregistered common stock valued at approximately $101 thousand which was recorded as waiver fees and expensed to interest expense.

Pursuant to Amendment No. 3, the Company and Moriah entered into an Amendment to Registration Rights Agreement (the "Amended Registration Rights Agreement"). The Company agreed to use its best efforts to file a registration statement to register the 485,000 shares of the Company's common stock issued pursuant to the Amended and Restated Securities Issuance Agreement and the shares of common stock issuable upon exercise of the Warrant, provided that the Company is permitted to do so under applicable securities rules and regulations and after certain other registration statements that the Company was obligated to file on behalf of selling shareholders have been declared effective.

8% Amended Senior Secured Convertible Notes

On July 23, 2007, the Company entered into Amended Agreements with the note holders of the Original Notes issued July 21, 2006 and March 28, 2007 and agreed to issue each holder an 8% Amended Senior Secured Convertible Note ("Amended Note") in the principal amount equal to the principal amount outstanding as of July 23, 2007 which was in total approximately $6.0 million. The significant changes to the Amended Notes include the following:

- the due dates have been changed from July 23, 2007 and January 21, 2008 to December 21, 2008;
- the annual interest rate has been changed from 6% to 8%;
- the Amended Notes are convertible into 8,407,612 shares of the Company's common stock. The conversion price for $5.8 million of principal is at a conversion price of $0.75, originally $2.60 and the conversion price for $250,000 of principal remains the same at $0.35;
- the Agreement adjusts the exercise price of the amended Warrants from $3.60 to $1.03 per share for 1,553,468 shares of common stock and requires the issuance of warrants for an additional 3,831,859 shares of common stock at $1.03 per share with an expiration date of July 21, 2011. The warrants are subject to anti-dilution adjustment rights;
- 50% of the Amended Notes can be converted into the Company's newly designated Series A Senior Secured Convertible Preferred Stock which is convertible into common stock at the same rate as the Amended Notes;
- the liquidated damages of 1% per month will no longer accrue and the deferred balance at July 23, 2007 is forgiven; and
- there is no minimum cash or cash equivalents balance requirement.

The Company determined the change in the present value of the expected cash flows between the Amended Notes and the Original Notes issued July 21, 2006 was greater than 10%; therefore (a) for financial reporting purposes, the modifications to the Original Notes issued July 21, 2006 were treated as an extinguishment of debt and (b) on July 23, 2007, the Company recorded a loss on extinguishment of debt of approximately $10.7 million reflecting the difference between (i) the recorded amount of debt, net of related discounts, of approximately $4.8 million and (ii) the fair value of the new debt instrument of approximately $10.7, which was determined by multiplying the number of convertible shares underlying the note by the closing market price of the common stock on July 23, 2007 plus the change in the fair value of the warrants on July 23, 2007, the date of the modification, of approximately $4.7 million, which was considered a fee paid by the debtor to the creditor. The Company has also recorded a beneficial conversion charge of approximately $5.1 million on the Amended Notes, which was calculated by multiplying the intrinsic value of the common stock by the underlying convertible shares, adjusting the Amended Notes to their face value of approximately $5.8 million. The Original Note issued on March 28, 2007 and amended on July 23, 2007 was not treated as an extinguishment but a modification.

On December 22, 2008, the Company paid approximately $4.03 million to its 8% Amended Senior Secured Convertible Note Holders ("the Amended Note Holders") which was comprised of approximately $4.01 million of principal and approximately $0.02 million of accrued interest. The remaining Note Holders elected to convert approximately $1.95 million to equity. See Note 11 – Shareholders' Equity for additional information.

Note 10 - INCOME TAXES - Restated

Loss before income taxes consists of the following (in thousands):

	For the years ended December 31, 2009 Restated	2008	2007
Domestic	$ (2,181)	$ (1,859)	$ (18,488)
Total	$ (2,181)	$ (1,859)	$ (18,488)

The federal income tax provision (benefit) is summarized as follows (in thousands):

	For the years ended December 31, 2009	2008	2007
Current:			
Federal	$90	$ -	$ -
Total current tax expense	90	-	-
Deferred:			
Federal	-	-	-
Total deferred tax expense	-	-	-
Total tax expense	$90	$ -	$ -

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating losses and tax credit carryforwards.

The tax effects of significant items comprising the Company's deferred taxes as of December 31 are as follows (numbers are in thousands):

	For the years ended December 31, 2009	2008	2007
Deferred tax assets:			
Federal and state net operating loss carryforwards	$39,391	$40,964	$42,266
Research and development tax credit carryforwards	1,440	1,454	1,397
Stock based compensation	1,240	879	609
Depreciation and amortization	385	466	552
Other provisions and expenses not currently deductible	988	851	585
Total deferred tax assets	$43,444	$44,614	$45,409
Deferred tax liabilities:			
Prepaid expenses	$(197)	$-	$-
Total deferred tax liabilities	$(197)	$-	$-
Less valuation allowance	$(43,247)	$(44,614)	$(45,409)
Net deferred taxes	$0	$0	$0

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The effect on deferred tax assets and liabilities of changes in tax rates will be recognized as income or expense in the period that the change occurs. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. Changes in circumstances, assumptions and clarification of uncertain tax regimes may require changes to any valuation allowances associated with the Company's deferred tax assets.

Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Because of the Company's history of operating losses, management does not believe that realization of the deferred tax assets arising from the above-mentioned future tax benefits is more likely than not and, accordingly, has provided a valuation allowance.

As of December 31, 2009, 2008 and 2007, the Company has net deferred tax assets of approximately of $43.2, $44.6, and $45.4 million, respectively, primarily resulting from the future tax benefit of net operating loss carryforwards. The valuation allowance decreased by $1.4 million during 2009, $795 thousand during 2008 and increased by $3.3 million during 2007.

During the year ended December 31, 2009, the Company utilized approximately $4.8 million of its prior years' net operating loss carryforward. The current tax provision of $90 thousand represents alternative minimum tax. As of December 31, 2009, eMagin has federal and state net operating loss carryforwards of approximately $116 million and $2 million, respectively. The federal research and development tax credit carryforwards are approximately $1.5 million. The net operating losses and tax credit carryforwards will be available to offset future taxable income, if any, through December 2029. The utilization of net operating losses is subject to a limitation due to the change of ownership provisions under Section 382 of the Internal Revenue Code and similar state provisions. Such limitation may result in the expiration of the net operating losses before their utilization. The Company has done analysis regarding prior year ownership changes, and it has been determined that the Section 382 limitation on the utilization of net operating losses will currently not materially affect the Company's ability to utilize its net operating losses.

The difference between the statutory federal income tax rate on the Company's pre-tax loss and the Company's effective income tax rate is summarized as follows:

	For the years ended December 31,		
	2009 Restated	2008	2007
U.S. Federal income tax benefit at federal statutory rate	34%	34%	34%
Change in valuation allowance	62%	43%	(18)%
Change in effective state tax rate	3%	(75)%	—
Loss on extinguishment of debt	—	—	(20)%
Change in the fair value of warrant liability	(102)%	—	—
Other, net	(1)%	(2)%	4%
Effective tax rate	(4) %	0%	0%

The Company did not have unrecognized tax benefits which would require an adjustment to the January 1, 2007 beginning balance of retained earnings. The Company did not have any unrecognized tax benefits at December 31, 2009, December 31, 2008 or December 31, 2007. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2009, 2008 and 2007, the Company recognized no interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction and New York. Due to the Company's operating losses, all tax years remain open to examination by major taxing jurisdictions to which the Company is subject.

Note 11 - SHAREHOLDERS' EQUITY

Preferred Stock

Preferred Stock – Series B Convertible Preferred Stock ("the Preferred Stock – Series B")

The Company has designated 10,000 shares of the Company's preferred stock as Preferred Stock – Series B at a stated value of $1,000 per share. The Preferred Stock – Series B is convertible into common stock at a conversion price of $0.75 per share. The Preferred Stock – Series B does not pay interest. The holders of the Preferred Stock – Series B are not entitled to receive dividends unless the Company's Board of Directors declare a dividend for holders of the Company's common stock and then the dividend shall be equal to the amount that such holder would have been entitled to receive if the holder converted its Preferred Stock – Series B into shares of the Company's common stock. Each share of Preferred Stock – Series B has voting rights equal to (i) the number of shares of Common Stock issuable upon conversion of such shares of Preferred Stock – Series B at such time (determined without regard to the shares of Common Stock so issuable upon such conversion in respect of accrued and unpaid dividends on such share of Preferred Stock) when the Preferred Stock – Series B votes together with the Company's Common Stock or any other class or series of stock of the Company and (ii) one vote per share of Preferred Stock when such vote is not covered by the immediately preceding clause. In the event of a liquidation, dissolution, or winding up of the Company, the Preferred Stock – Series B is entitled to receive liquidation preference before the Common Stock. The Company may at its option redeem the Preferred Stock – Series B by providing the required notice to the holders of the Preferred Stock – Series B and paying an amount equal to $1,000 multiplied by the number of shares for all of such holder's shares of outstanding Preferred Stock – Series B to be redeemed.

On December 22, 2008, the Company entered into a Securities Purchase Agreement pursuant to which the Company sold and issued an aggregate of 4,033 shares of its Preferred Stock – Series B for an aggregate price of approximately $4.03 million and warrants to purchase 1,875,467 shares of common stock at $1.03 per share. The warrants expire on December 22, 2013. The net proceeds received after expenses were approximately $3.93 million. The fair value of the warrants was recorded as equity and there was no impact on the consolidated financial position of the results of operations. As of January 1, 2009, the Company adopted ASC 815 and as a result the warrants were reclassified as liabilities using a Monte Carol Simulation model to estimate the fair value of the liabilities. At each reporting date, the change in the fair value of the liability is recorded in the Consolidated Statements of Operations . In addition, the Company entered into an Exchange Agreement (the "Exchange Agreement") with three holders ("Holders") of its outstanding Amended Notes. Pursuant to the Exchange Agreement, the Holders exchanged $1.7 million of their outstanding Amended Notes and unpaid interest of $6 thousand, and received 1,706 shares of the Preferred Stock – Series B. There was no gain or loss on the extinguishment of debt.

As of December 31, 2009, there were 5,739 shares of Preferred Stock – Series B issued and outstanding.

Preferred Stock – Series A Senior Secured Convertible Preferred Stock ("the Preferred Stock – Series A")

The Company designated but did not issue 3,198 shares of the Company's preferred stock as Series A Senior Secured Convertible Preferred Stock ("the Preferred Stock - Series A") at a stated value of $1,000 per share. The Preferred Stock - Series A was entitled to cumulative dividends which accrued at a rate of 8% per annum, payable on December 21, 2008. Each share of the Preferred Stock - Series A had voting rights equal to (1) in any case in which the Preferred Stock - Series A voted together with the Company's Common Stock or any other class or series of stock of the Company, the number of shares of Common Stock issuable upon conversion of such shares of Preferred Stock - Series A at such time (determined without regard to the shares of Common Stock so issuable upon such conversion in respect of accrued and unpaid dividends on such share of Preferred Stock - Series A) and (2) in any case not covered by the immediately preceding clause one vote per share of Preferred Stock - Series A. Preferred Stock - Series A had a mandatory redemption at December 21, 2008. As of December 31, 2009, there were no shares issued or outstanding.

Common Stock

2009

For the year ended December 31, 2009, the Company received approximately $5 thousand for options exercised and there were 2.9 million warrants exercised on a cashless basis resulting in 726,910 shares of common stock issued.

For the year ended December 31, 2009, the Company also issued approximately 498,513 shares of common stock for payment of approximately $304 thousand for services rendered and to be rendered in the future. As such, the Company recorded the fair value of the services in prepaid expenses and selling, general and administrative expenses in the accompanying consolidated statements of operations for the year ended December 31, 2009.

At December 31, 2008, the 522,500 shares underlying the 2007 and 2008 put options ("put options") granted to Moriah were presented on the balance sheet as redeemable common stock in the amount of $429 thousand which represented the amount for which the shares may be redeemed at the option of Moriah. On August 7, 2009, the put options expired when Moriah elected not to exercise its put options. The 522,500 shares are classified as permanent equity on the December 31, 2009 balance sheet.

2008

On December 22, 2008, an investor converted $250 thousand of the principal amount of the Amended Note and approximately $1 thousand of accrued and unpaid interest totaling $251 thousand and received 717,620 shares of Common Stock at the conversion price of $0.35.

On December 22, 2008, the Company entered into a Securities Purchase Agreement pursuant to which the Company sold and issued 5,739 shares of Preferred Stock – Series B at a stated value of $1,000 per share (see Preferred Stock above for additional information). The Preferred Stock – Series B is convertible into Common Stock at a conversion price of $0.75. The Company may at its option redeem the Preferred Stock – Series B by providing the required notice to the holders of the Preferred Stock – Series B and paying an amount equal to $1,000 multiplied by the number of shares for all of such holder's shares of outstanding Preferred Stock – Series B to be redeemed. The total shares of Common Stock underlying the Preferred Stock – Series B is 7,652,000. As mentioned above in Preferred Stock – Series B, warrants were issued to purchase 1,875,467 shares of common stock at $1.03 per share. The warrants terminate on December 22, 2013.

The Company entered into a Registration Rights Agreement to register for resale of the shares of the Company's common stock issuable upon conversion of the Preferred Stock sold in the offering and the shares of Common Stock issuable upon exercise of the warrants. Subject to the terms of the Registration Rights Agreement, the Company is required to file a registration statement on Form S-1 with the Securities and Exchange Commission (the "SEC") within 30 days following the date that the Company is permitted to file a registration statement by (i) the rules and regulations of the SEC and (ii) the agreements set forth on Schedule B to the Registration Rights Agreement, which as of December 31, 2009 prohibit the Company from filing the initial Registration Statement until certain other registration statements are filed. After filing the Registration Statement, the Company is to cause such Registration Statement to be declared effective under the Securities Act of 1933 (the "Act") as promptly as possible but in no event later than 90 days after the filing date (or no later than 120 days after the filing date in the event of SEC "full review" of the Registration Statement). The Holders that exchanged their Notes pursuant to the Exchange Agreement received the same registration rights.

As a result of the December 22, 2008 Securities Purchase Agreement, the outstanding 650,000 Series F Common Stock Purchase Warrants that were issued to participants of the Securities Purchase Agreement dated October 25, 2004, were repriced from $3.31 to $2.50 and the April 2, 2008 Common Stock Purchase Warrants were repriced from $1.28 to $1.13. The repricing of the warrants had no effect on the consolidated financial statements.

On August 20, 2008, the Company and Moriah Capital entered into Amendment No. 3 to the Loan and Security Agreement ("Amendment No. 3") effective August 7, 2008. The Company issued Moriah a warrant, which terminates on August 7, 2013, to purchase up to 370,000 shares of the Company's common stock at an exercise price of $1.30 per share.

In addition, the Company and Moriah entered into an Amended and Restated Securities Issuance agreement (the "Amended and Restated Securities Issuance Agreement") on August 20, 2008. On August 7, 2007, in connection with the Securities Issuance Agreement, (the "Original Securities Issuance Agreement"), the Company issued Moriah 162,500 shares of the Company's common stock (the "2007 Shares"). With respect to the Amended and Restated Securities Issuance Agreement, Moriah agreed to waive the Company's obligation to buy back the 2007 Shares with respect to 125,000 of such shares with a redemption amount of $150,000 and to extend the Company's obligation to buy back 37,500 of such 2007 Shares for an additional 12 month period. The Company issued Moriah 485,000 shares of its Common Stock of which 125,000 shares were issued as additional consideration for the extension of the loan and security agreement and 360,000 shares were issued in lieu of the issuance to Moriah of the Contingent Issued Shares (as described in the Original Securities Issuance Agreement). Additionally, Moriah had a put option pursuant to which Moriah could sell to the Company 162,500 shares of its common stock for $195,000, pro-rated for any portion thereof, relating to the remaining 37,500 shares subject to the 2007 Put Option and the 125,000 shares issued to extend the loan and security agreement, the Put Waiver shares. In conjunction with the issuance of the 360,000 shares, the Company granted Moriah a put option pursuant to which such shares could be put to the Company for $234,000 (the "2008 Put Option"). On August 7, 2009, the put options expired when Moriah elected not to exercise its put options.

At December 31, 2008, the shares underlying the put options were presented as redeemable common stock and presented separately from permanent equity. At December 31, 2008, an aggregate of 522,500 shares related to the 2007 and 2008 put options were presented on the balance sheet as redeemable common stock in the amount of $429,000, representing the amount for which the shares may have been redeemed at the option of the holders at such date. As a result of the expiration of the put options in August 2009, the 522,500 shares were classified as permanent equity on the December 31, 2009 balance sheet.

The Company and Moriah entered into an Amendment to Registration Rights Agreement (the "Amended Registration Rights Agreement") and the Company agreed to use its best efforts to file a registration statement to register the 485,000 shares of the Company's common stock issued and the shares of common stock issuable upon exercise of the Warrant.

On August 19, 2008, the Holders of the Amended Notes and the Investors in the Purchase Agreement consented to the Company's execution of the Amended Note, Amendment No. 3, Amended and Restated Securities Issuance Agreement, and the Amended Registration Rights Agreement. In consideration for the consent, a total of 144,000 shares of common stock valued at $101,000 were issued to the Holders and Investors based on individual participation in the Amended Notes and Purchase Agreement on September 4, 2008.

As a result of the Amended and Restated Securities Issuance Agreement, the outstanding 650,000 Series F Common Stock Purchase Warrants that were issued to participants of the Securities Purchase Agreement dated October 25, 2004, were repriced from $3.45 to $3.31 and the April 2, 2008 Common Stock Purchase Warrants were repriced from $1.30 to $1.28. The repricing of the warrants had no effect on the consolidated financial statements.

On April 2, 2008, the Company entered into a Securities Purchase Agreement ("Purchase Agreement"), pursuant to which the Company sold and issued 1,586,539 shares of common stock, par value of $0.001 per share, at a price of $1.04 per share and warrants to purchase an additional 793,273 shares of common stock for an aggregate purchase price of approximately $1.65 million. The net proceeds received after expenses were approximately $1.58 million. The warrants are exercisable at a price of $1.30 per share and expire on April 2, 2013.

As a result of the Purchase Agreement, the outstanding 650,000 Series F Common Stock Purchase Warrants that were issued to participants of the Securities Purchase Agreement dated October 25, 2004, were repriced from $4.09 to $3.45. The repricing of the warrants had no effect on the consolidated financial statements.

A registration rights agreement was entered into on April 2, 2008 in connection with the private placement which required the Company to file a registration statement for the resale of the common stock and the shares underlying the warrants within 45 days of the signing of the agreement. The Company was to use its best efforts to have the registration statement declared effective within 90 days of the signing of the agreement or if a SEC review occurs, 120 days. In addition, the Company was to use its best efforts to maintain the effectiveness of the registration statement until all common stock has been sold or may be sold without volume restrictions pursuant to Rule 144(k) of the Securities Act.

If the registration statement is not effective within the grace periods ("Event Date") or the Company cannot maintain its effectiveness ("Event Date"), the Company must pay partial liquidated damages ("damages") in cash to each investor equal to 2% of the aggregate purchase price paid by each investor under the Purchase Agreement on the Event Date and each monthly anniversary of the Event Date (or on a pro-rata basis for any portion of a month) until the registration statement is effective. The Company is not liable for any damages with respect to the warrants or warrant shares. The maximum damages payable to each investor is 36% of the aggregate purchase price. If the Company fails to pay the damages to the investors within 7 days after the date payable, the Company must pay interest at a rate of 15% per annum to each investor which accrues daily from the date payable until damages are paid in full.

The Company filed the registration statement within the 45 day period however the Company was notified that the registration statement was under review by the SEC. The amended registration statement was not filed by August 2, 2008 which was the 120th day from the signing of the purchase agreement and therefore the registration statement is not effective. As of December 31, 2009, the registration statement is not effective.

The Company accounted for the registration payment arrangement under guidance that requires the contingent obligation to make future payments be recognized and measured using a reasonable estimate. The Company estimated $399 thousand to be the maximum potential damages that the Company may be required to pay the investors if the registration statement is not effective within three years of the signing of the agreement. The Company estimated $186 thousand to be a reasonable estimate of the potential damages that may be due to the investors as the securities are subject to the provisions of Rule 144. As a result, the Company recorded a liability of $186 thousand in the consolidated balance sheets and the associated expense in other income (expense) in the consolidated statements of operations for the year ended December 31, 2008.

Effective March 25, 2008, the Company amended the Warrant Issuance Agreement (“Amended Warrant Agreement”) with Moriah. In connection with such amendment, the Company issued a Warrant to purchase an additional 250,000 shares of its common stock at a price of $1.50 expiring March 25, 2013.

On January 30, 2008, the Company amended and restated its Loan and Security Agreement (“Amended Loan Agreement”) with Moriah. As part of the amended agreement, the Loan Conversion agreement was terminated which eliminated the optional conversion of principal up to $2.0 million into common stock at $1.50. In connection with the Amended Loan agreement, the Company issued a Warrant to purchase 750,000 shares of its common stock at a price of $1.50 per share with an expiration date of January 29, 2013. Effective March 25, 2008, the Company amended the Warrant Issuance Agreement with Moriah. In connection with such amendment, the Company issued a Warrant to purchase an additional 250,000 shares of its common stock at a price of $1.50 expiring March 25, 2013.

The Company determined the fair value of the 1,000,000 warrants issued to Moriah to be $729 thousand. The Company valued the warrants using a Black-Scholes option pricing model. The Company recorded $168 thousand as interest expense and the remaining $561 thousand was recorded as deferred debt issuance costs and amortized over the life of the loan. The following assumptions were used to determine the fair value of the warrants: dividend yield of 0%; risk free interest rates of 2.61 % and 2.96%; expected volatility of 90.9% and 92.3%; and expected contractual term of 5 years.

For the year ended December 31, 2008, there were no stock options and warrants exercised. For the year ended December 31, 2008, the Company also issued approximately 326,000 shares of common stock for payment of approximately $303 thousand for services rendered and to be rendered in the future. As such, the Company recorded the fair value of the services in prepaid expenses and selling, general and administrative expenses in the accompanying consolidated statements of operations for the year ended December 31, 2008.

2007

On August 16, 2007, an investor elected to convert approximately $58 thousand of the Amended Note. The investor received 76,923 shares of Common Stock at the conversion price of $0.75.

On August 7, 2007, the Company entered into a loan agreement with Moriah Capital, L.P. (“Moriah) and established a revolving line of credit (the “Loan”) of $2.5 million. As part of the transaction, the Company issued 162,500 shares of unregistered common stock valued at $195 thousand, recognized as deferred financing costs, and paid a servicing fee of $82,500 to Moriah which was amortized to interest expense over the life of the agreement. For the year ended December 31, 2007, approximately $116 thousand was amortized to interest expense. In conjunction with entering into this loan and issuing unregistered common stock, the Company granted Moriah registration rights. The Loan was convertible into shares of the Company’s common stock pursuant to the terms of the Loan Conversion agreement. The Loan matured on August 8, 2008 however the Company extended the line of credit an additional year. On January 30, 2008 and March 25, 2008, the loan agreement was amended.

A registration rights agreement was entered into in connection with the Loan which required the Company to file a registration statement for the resale of the common stock issued. The Company must use its best efforts to have the registration statement declared effective by the end of a specified grace period and also maintain the effectiveness of the registration statement until all shares of common stock have been sold or may be sold without volume restrictions pursuant to Rule 144(k) of the Securities Act.

Additionally, the Company granted Moriah a put option pursuant to which Moriah can sell to the Company the 162,500 shares of its common stock for $195 thousand, or prorated for any portion thereof ("the Put Option"). The Put Option expires if the Put Option is not exercised during the Put Period which is the earlier of a) ten business days commencing on the anniversary date of the loan agreement or b) ten business days commencing on the date which is nine months after the registration statement for the registration of the issued 162,500 shares of common stock is declared effective.

On July 23, 2007, the Company entered into Agreements with the note holders and agreed to issue each holder an Amended Note in the principal amount equal to the principal amount outstanding as of July 23, 2007 which was in total approximately $6.0 million. The Amended Notes were convertible into 8,407,612 shares of the Company’s common stock. The conversion price for $5.8 million of principal was at a conversion price of $0.75 and the conversion price for $250 thousand of principal remains the same at $0.35. The Agreement adjusted the exercise price of the amended Warrants from $3.60 to $1.03 per share for 1,553,468 shares of common stock and required the issuance of warrants for an additional 3,831,859 shares of common stock at $1.03 per share with an expiration date of July 21, 2011. The warrants are subject to anti-dilution adjustment rights. 50% of the Amended Notes were convertible into the Company’s newly designated Series A Senior Secured Convertible Preferred Stock which was convertible into common stock at the same rate as the Amended Notes.

The Company had recorded the fair value of the warrants associated with the Note as a liability as the warrant agreement required a potential net-cash settlement in the first year of the warrant agreement if the registration statement is not effective. The liability was adjusted to fair value at each reporting period. As of July 23, 2007, the potential net-cash settlement had expired. As a result, the fair value of the warrant liability on July 23, 2007, approximately $2.7 million, was reversed. For the year ended December 31, 2007, the Company recorded losses of approximately $0.8 million from the change in the fair value of the warrant derivative liability. The change in the fair value of the warrant liability was recorded in the Consolidated Statements of Operations as other income (expense).

On July 23, 2007, an investor converted $250 thousand of the principal amount of the Original Note due on July 23, 2007 and approximately $2 thousand of accrued and unpaid interest totaling $252 thousand and received 720,476 shares of Common Stock at the conversion price of $0.35. On August 16, 2007, an investor elected to convert approximately $58 thousand of the Amended Note. The investor received 76,923 shares of Common Stock at the conversion price of $0.75.

On March 28, 2007, the Company entered into a Note Purchase Agreement for the sale of $500 thousand of 6% senior secured convertible debentures (the “Note”) and warrants to purchase approximately 1,000,000 shares of common stock, par value $.001 per share. The investor purchased the Note with a conversion price of $0.35 per share that may convert into approximately 1,400,000 shares of common stock and issued warrants exercisable at $0.48 per share for approximately 1,000,000 shares of common stock expiring in July 2011. On April 9, 2007, the Company closed the transaction and received approximately $460 thousand, net of offering costs of approximately $40 thousand, which are amortized over the life of the Note. The Note was amended on July 23, 2007 as described in Footnote 8: Debt.

As a result of the issuance of the Note, the outstanding 116,573 Series A Common Stock Purchase Warrants, that were issued to certain accredited and/or institutional investors pursuant to the Securities Purchase Agreement dated January 9, 2004, were re-priced from $2.60 to $0.35 and the outstanding 650,000 Series F Common Stock Purchase Warrants, that were issued to certain accredited and/or institutional investors pursuant to the Securities Purchase Agreement dated October 25, 2004, were re-priced from $8.60 to $7.12. As a result of the issuance of the Amended Notes the outstanding 650,000 Series F Common Stock Purchase Warrants that were issued to certain accredited and/or institutional investors pursuant to the Securities Purchase Agreement dated October 25, 2004, were re-priced from $7.12 to $4.39 in accordance with the anti-dilution provision of the original agreement. These warrants were further re-priced in connection with the loan agreement with Moriah from $4.39 to $4.09. The repricing of the warrants had no effect on the consolidated financial statements.

For the year ended December 31, 2007, there were no stock options exercised and the Company received approximately $3 thousand in proceeds for warrants exercised. For the year ended December 31, 2007, the Company also issued approximately 1.3 million shares of common stock for payment of approximately $1.1 million for services rendered and to be rendered in the future. In addition, the Company issued 162,500 shares of common stock subject to a put option for payment of approximately $0.2 million for services rendered. As such, the Company recorded the fair value of the services in prepaid expenses and selling, general and administrative expenses in the accompanying consolidated statements of operations for the year ended December 31, 2007.

Note 12 - STOCK COMPENSATION

Employee stock purchase plan

In 2005, the stockholders approved the 2005 Employee Stock Purchase Plan (“ESPP”). The ESPP provides the Company’s employees with the opportunity to purchase common stock through payroll deductions. Employees purchase stock semi-annually at a price that is 85% of the fair market value at certain plan-defined dates. At December

31, 2009, the number of shares of common stock available for issuance was 300,000. As of December 31, 2009, the plan had not been implemented.

Incentive compensation plans

In 2000, the Company established the 2000 Stock Option Plan (the "2000 Plan"). The Plan permits the granting of options and stock purchase rights to employees and consultants of the Company. The 2000 Plan allows for the grant of incentive stock options meeting the requirements of Section 422 of the Internal Revenue Code of 1986 (the "Code") or non-qualified stock options which are not intended to meet such requirements.

In 2003, the Company established the 2003 Stock Option Plan (the "2003 Plan"). The 2003 Plan provided for the granting of options to purchase an aggregate of 920,000 shares of the common stock to employees and consultants. On July 2, 2003, the shareholders approved the plan and the 2003 Plan was subsequently amended by the Board of Directors on July 2, 2003 to reduce the number of additional shares that may be provided for issuance under the "evergreen" provisions of the 2003 Plan. The amended 2003 Plan provides for an increase of 200,000 shares in January 2004 and an annual increase on January 1 of each year for a period of nine (9) years commencing on January 1, 2005 of 3% of the diluted shares outstanding. The shareholders approved an amendment to the 2003 Plan to provide grants of shares of common stock in addition to options to purchase shares of common stock. In 2009, no options were issued from the 2003 Plan.

The 2008 Incentive Stock Plan ("the 2008 Plan") adopted and approved by the Board of Directors on November 5, 2008 provides for shares of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. The 2008 Plan has an aggregate of 2,000,000 shares. As of December 31, 2009, there were 498,533 shares of common stock issued to consultants and there were 1,278,841 options granted from this plan.

Vesting terms of the options range from immediate vesting to a ratable vesting period of 5 years. Option activity for the years ended December 31, 2009, 2008 and 2007 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Balances at December 31, 2006	1,065,745	$ 2.94		
Options granted	228,577	1.41		
Options exercised	—	—		
Options forfeited	(203,943)	2.90		
Options cancelled	(196,056)	2.67		
Balances at December 31, 2007	894,323	$ 2.62		
Options granted	927,253	0.89		
Options exercised	—	—		
Options forfeited	(205,903)	2.29		
Options cancelled	—	—		
Balances at December 31, 2008	1,615,673	$ 1.63		
Options granted	1,278,840	1.03		
Options exercised	(5,342)	0.98		
Options forfeited	(71,597)	2.60		
Options cancelled	—	—		
Balances at December 31, 2009	2,817,574	$ 1.33	6.12	$ 2,101,989
Vested or expected to vest at December 31, 2009(1)	2,769,913	$ 1.26	6.61	$ 1,533,506
Exercisable at December 31, 2009	2,136,697	$ 1.40	6.61	$ 1,533,506

(1) The expected to vest options are the result of applying the pre-vesting forfeiture rate assumptions to total unvested options.

At December 31, 2009, there were 275,632 shares available for grant under the 2008, 2003 and 2000 Plans.

The aggregate intrinsic value in the table above represents the difference between the exercise price of the underlying options and the quoted price of the Company's common stock on December 31, 2009 for the options that were in-the-money. As of December 31, 2009 there were 2,421,628 options that were in-the-money. The Company's closing stock price was $1.88 as of December 31, 2009. The Company issues new shares of common stock upon exercise of stock options.

The following table summarizes information about stock options outstanding at December 31, 2009:

Options Outstanding	Options Exercisable

	Number Outstanding	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercisable Price
$ 0.34 - $0.98	1,221,451	6.32	$ 0.83	891,385	$ 0.81
$ 1.00 - $1.80	1,200,177	7.14	1.20	893,390	1.24
$ 2.60 - $2.70	358,746	2.49	2.62	316,222	2.61
$ 3.50 - $22.50	37,200	1.78	9.75	35,700	9.65
	2,817,574	6.12	$ 1.33	2,136,697	$ 1.40

On July 21, 2006, certain employees and Directors of the Company agreed to cancel approximately 467,000 shares underlying existing stock options in return for the re-pricing of approximately 869,000 existing options at $2.60 per share having a weighted average original exercise price of $11.97. Option grants that have not been re-priced remain unchanged. The unvested options which were re-priced continue to vest on original vesting schedules, but in no event vest prior to January 19, 2007. Previously vested options which were re-priced were fully vested on January 19, 2007. Re-priced grants will be forfeited if the individual leaves voluntarily. The Company has accounted for the re-pricing and cancellation transactions as a modification.

Stock based compensation

The Company uses the fair value method of accounting for share-based compensation arrangements. The fair value of stock options is estimated at the date of grant using the Black-Scholes option valuation model. Stock-based compensation expense is reduced for estimated forfeitures and is amortized over the vesting period using the straight-line method.

The following table summarizes the allocation of stock-based compensation to expense categories for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	For the years ended December 31,		
	2009	2008	2007
Cost of revenue	$ 134	$ 134	$ 215
Research and development	201	237	357
Selling, general, and administrative	775	557	1,080
Total stock compensation expense	$ 1,110	$ 928	$ 1,652

At December 31, 2009, total unrecognized compensation costs related to stock options was approximately $0.3 million, net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures and is expected to be recognized over a weighted average period of approximately 1.1 years. The total fair value of the shares that vested in 2009 was $0.8 million.

Options granted to non-employees are measured at the grant date using a fair value options pricing model and remeasured to the current fair market value at each reporting period as the underlying options vest and services are rendered. For the twelve months ended December 31, 2009, there were 60,000 options granted to consultants. The following assumptions were used in the Black-Scholes option pricing model to determine the fair value of stock options granted: dividend yield – 0%; risk free interest rates – 1.44% to 1.70%; expected volatility – 68.4% to 84.1%; and expected term – 3 years.

In determining the fair value of stock options granted during the years ended December 31, 2009, 2008, and 2007, the following key assumptions were used in the Black-Scholes option pricing model:

	For the years ended December 31,		
	2009	2008	2007
Dividend yield	0 %	0 %	0%
Risk free interest rates	1.44 – 2.51 %	1.71% - 3.37 %	3.28% - 4.23%
Expected volatility	68% - 86 %	87% -92 %	105% -106%
Expected term (in years)	3-5.5 years	5 years	5 years

We have not declared or paid any dividends and do not currently expect to do so in the near future. The risk-free interest rate used in the Black-Scholes option pricing model is based on the implied yield currently available on U.S. Treasury securities with an equivalent term. Expected volatility is based on the weighted average historical volatility of the Company’s common stock for the most recent five year period. The expected term of options represents the period that eMagin’s stock-based awards are expected to be outstanding and was determined based on historical experience and vesting schedules of similar awards.

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Warrants

At December 31, 2009, there are 9,267,821 warrants to purchase shares of common stock outstanding and exercisable at exercise prices ranging from $0.48 to $10.00 and expiration dates ranging from April 25, 2010 to December 22, 2013.

	Outstanding Warrants	
	Shares	Weighted Average Exercise Price
Balances at December 31, 2005	2,619,725	$10.20
Warrants granted	1,805,037	3.49
Warrants exercised	—	—
Warrants expired	(876,588)	6.90
Balances at December 31, 2006	3,548,174	$7.05
Warrants granted	4,831,859	0.88
Warrants exercised	(9,524)	0.35
Warrants expired	(30,000)	4.26
Balances at December 31, 2007	8,340,509	$2.65
Warrants granted	4,038,740	1.22
Warrants exercised	—	—
Warrants expired	(100,009)	27.60
Balances at December 31, 2008	12,279,239	$1.88
Warrants granted	—	—
Warrants exercised	(2,900,000)	1.03
Warrants expired	(111,418)	1.28
Balances at December 31, 2009	9,267,821	$2.16

Note 13 - COMMITMENTS AND CONTINGENCIES

Royalties

The Company signed a license agreement on March 29, 1999 with Eastman Kodak (“Kodak’), under which it is obligated to make royalty payments. Under this agreement, the Company must pay to Kodak a minimum royalty plus a certain percentage of net sales with respect to certain products, which percentages are defined in the agreement. The percentages are on a sliding scale depending on the amount of sales generated. Any minimum royalties paid will be credited against the amounts due based on the percentage of sales. The royalty agreement terminates upon the expiration of the issued patent which is the last to expire.

Effective May 30, 2007, Kodak and eMagin entered into an intellectual property agreement where eMagin assigned Kodak the rights, title, and interest to a Company owned patent currently not being used by the Company and in consideration, Kodak waived the royalties due under existing licensing agreements for the first six months of 2007, and reduced the royalty payments by 50% for the second half of 2007 and for the entire calendar year of 2008. In addition, the minimum royalty payment was delayed until December 1st for the years 2007 and 2008. The Company recorded approximately $556 thousand and $868 thousand for the years ended December 31, 2008 and 2007, respectively, as income from the license of intangible assets and included this amount in other income on the Consolidated Statements of Operations. For the years ended December 31, 2008 and 2007, royalty expense of approximately $1.1 million and $1.2 million, respectively, was included in cost of goods sold. As of January 1, 2009, the royalty payments reverted to 100%. The minimum annual royalty payment for 2009 of $125 thousand was paid in January 2009.

In late 2008, the Company began evaluating the status of its manufacturing process and the use of the IP associated with its license agreement. After this analysis and after making a few changes to its manufacturing process, the Company determined it was no longer using the IP covered under the license agreement. The associated royalty liability has been reduced by the Company to royalties on inventory produced prior to the manufacturing process changes. For the twelve months ended December 31, 2009, the Company recorded approximately $272 thousand as royalty expense in its consolidated statements of operations and the associated liability on its consolidated balance sheet as the Company believes this is the amount due under the agreement which is based on applying the royalty formula to only the sold displays produced prior to the manufacturing process changes.

As the Company has determined it is no longer using the IP covered under the license agreement in its manufacturing process, the Company believes that it is no longer required to pay the minimum annual royalty payment of $125,000 and as such has not paid or accrued this amount in 2010. However, the Company has approximately $109 thousand of inventory manufactured using the Kodak IP which if sold would result in royalty due of approximately $27 thousand. Going forward, the Company will continue to recognize the reduced royalty liability on sales of product produced prior to the manufacturing process change. There can be no assurance that the licensor will not challenge the Company’s position.

The Company was notified Kodak sold substantially all rights and obligations under the Company’s license agreement to Global OLED Technology, owned by LG Electronics, as of December 30, 2009.

Operating leases

The Company leases office facilities and office, lab and factory equipment under operating leases. The Company currently has lease commitments for space in Hopewell Junction, New York and Bellevue, Washington.

The Company's manufacturing facilities are leased from IBM in Hopewell Junction, New York. eMagin leases approximately 37,000 square feet to house its equipment for OLED microdisplay fabrication and for research and development, an assembly area and administrative offices. The lease expires May 31, 2014.

eMagin corporate headquarters are located in Bellevue Washington. eMagin leases approximately 5,100 square feet. The lease expires in August 31, 2014.

The future minimum lease payments through 2014 are $4.9 million. Rent expense was approximately $1.3 million for each of the years ended December 31, 2009, 2008, and 2007, respectively.

The following is a schedule of future minimum lease payments under long-term operating leases (in thousands):

Year Ending December 31,

2010	$	1,094
2011		1,119
2012		1,157
2013		1,197
2014		346
Net minimum lease payments	$	4,913

Employee benefit plans

eMagin has a defined contribution plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code, which is available to all employees who meet established eligibility requirements. Employee contributions are generally limited to 15% of the employee's compensation. Under the provisions of the 401(k) Plan, eMagin may match a portion of the participating employees' contributions. There was no matching contribution to the 401(k) Plan for the years ended December 31, 2009, 2008, and 2007.

Legal proceedings

A former employee ("plaintiff") of the Company commenced legal action in the United States District Court for the Southern District of New York, on or about October 12, 2007, alleging that the plaintiff was subject to gender based discrimination and retaliation in violation of Title VII of the Civil Rights Act of 1964 (Case No. 07-CV-8827 (KMK) . The plaintiff sought unspecified compensatory damages, punitive damages and attorneys' fees. The Company and the plaintiff settled this action in May 2009. The settlement did not have a material effect on the Company's results of operations.

On December 6, 2005, New York State Urban Development Corporation commenced action against eMagin in the Supreme Court of the State of New York, County of New York asserting breach of contract and seeking to recover a $150,000 grant which was made to eMagin based on goals set forth in the agreement for recruitment of employees. On July 13, 2006, eMagin agreed to a settlement with the New York State Urban Development Corporation to repay $112,200 of the $150,000 grant. The settlement required that repayments be made on a monthly basis in the amount of $3,116.67 per month commencing August 1, 2006 and ending on July 1, 2009. As of December 31, 2009, the settlement was paid and $37,800 was forgiven as a result of timely payments and was recorded in other income on the Company's consolidated statements of operations.

Note 14 – RELATED PARTY TRANSACTIONS

2009

None.

2008

On December 22, 2008, the Company entered into a Securities Purchase Agreement with Stillwater LLC, a beneficial owner of more than 5%, pursuant to which the Company sold and issued an aggregate of 4,033 shares of its Preferred Stock – Series B for an aggregate price of approximately $4.03 million and warrants to purchase 1,875,467 shares of common stock at $1.03 per share. The proceeds from the Securities Purchase Agreement were used to pay approximately $4.01 million of the outstanding principal of its Amended Notes and approximately $0.02 million of accrued interest. One employee had an Amended Note of $10 thousand which was repaid. Alexandra Global Master Fund Ltd ("Alexandra"), a beneficial owner of more than 5% of the Company's common stock, had its Amended Note of $3 million repaid.

In addition, the Company entered into an Exchange Agreement (the “Exchange Agreement”) with three holders (“Holders”) of its outstanding Amended Notes. Pursuant to the Exchange Agreement, the Holders exchanged $1.7 million of their outstanding Amended Notes and unpaid interest, $6 thousand, and received 1,706 shares of the Preferred Stock. Paul Cronson, Board member, through Navacorp III, LLC - a Note Holder, exchanged an Amended Note of $200 thousand for 200 shares of Preferred Stock – Series B. Rainbow Gate Corporation, a corporation whose investment manager is the sole member of Stillwater LLC and whose controlling shareholder is the same as Ginola Limited’s, exchanged an Amended Note of $700 thousand and accrued interest of $3 thousand for 703 shares of Preferred Stock – Series B. Ginola Limited, a beneficial owner of more than 5%, exchanged an Amended Note of $800 thousand and accrued interest of $3 thousand for 803 shares of Preferred stock – Series B. Stillwater LLC disclaims beneficial ownership of shares owned by Rainbow Gate Corporation. On December 22, 2008, Stillwater LLC converted its $250 thousand Amended Note and accrued interest of approximately $1.2 thousand to 717,620 shares of Common Stock.

On April 2, 2008, the Company entered into a Securities Purchase Agreement (“Purchase Agreement”), pursuant to which the Company sold and issued 1,586,539 shares of common stock, par value of $0.001 per share, at a price of $1.04 per share and warrants to purchase an additional 793,273 shares of common stock for an aggregate purchase price of approximately $1.65 million. The net proceeds received after expenses were approximately $1.58 million. The warrants are exercisable at a price of $1.30 per share and expire on April 2, 2013.

Stillwater LLC, as a beneficial owner of more than 5%, invested $500 thousand and received 480,769 shares of common stock and warrants to purchase additional 240,385 shares of common stock. Ginola Limited, as a beneficial owner of more than 5%, invested $250 thousand and received 240,385 shares of common stock and warrants to purchase an additional 120,193 shares of common stock. Crestflower Corporation invested $250 thousand and received 240,385 shares of common stock and warrants to purchase additional 120,193 shares of common stock. Ginola Limited and Crestflower share the same directors; however, Ginola Limited disclaims beneficial ownership of shares owned by Crestflower Corporation.

2007

On July 23, 2007, the Company entered into Agreements with the note holders and issued 8% Amended Senior Secured Convertible Notes (“Amended Notes”) to the note holders in the principal amount equal to the principal amount outstanding as of July 23, 2007. The due date for the principal payment was extended to December 21, 2008 and the interest rate increased to 8%. The Amended Notes were convertible into 8,407,612 shares of the Company’s common stock. The conversion price for approximately $5.77 million of principal was revised from $2.60 to $.75 per share and the conversion price of $.35 per share for $250 thousand of principal was unchanged. $3.0 million of the Notes were convertible into 3,010 shares of the Company’s newly formed Series A Convertible Preferred Stock (the “Preferred”) at a conversion price of $1 thousand per share. The Preferred was convertible into common stock at the same price allowable by the Amended Notes, subject to adjustment as provided for in the Certificate of Designations. The Amended Notes adjusted the exercise price from $3.60 to $1.03 per share for 1,553,468 warrants and required the issuance of 3,831,859 warrants exercisable at $1.03 per share pursuant to which the note holders may acquire common stock until July 21, 2011.

Stillwater LLC was a beneficial owner of more than 5% of the Company’s common stock. Rainbow Gate Corporation, a corporation whose investment manager is the sole member of Stillwater LLC and whose controlling shareholder is the same as Ginola Limited’s, had an Amended Note of $700 thousand which was convertible into 933,333 shares and received 653,333 warrants exercisable at $1.03 per share. Ginola Limited had an Amended Note of $800 thousand which was convertible into 1,066,333 shares and received 746,666 warrants exercisable at $1.03 per share. Stillwater LLC disclaimed beneficial ownership of shares owned by Rainbow Gate Corporation.

Two employees and one board member participated in the Agreements. Olivier Prache, Senior VP of Display Operations, had an Amended Note of $10 thousand which was convertible into 13,333 shares, received 9,333 warrants which are exercisable at $1.03 per share, and has 5,385 warrants which are exercisable at $3.60 per share. John Atherly, former CFO as of January 2, 2008, had an Amended Note of $40 thousand which was convertible into 53,333 shares and received 37,333 warrants which are exercisable at $1.03 per share. Paul Cronson, Board member, through Navacorp III, LLC, had an Amended Note of $200 thousand which was convertible into 266,666 shares and received 186,666 warrants which are exercisable at $1.03 per share.

Alexandra Global Master Fund Ltd ("Alexandra") was a beneficial owner of more than 5% of the Company's common stock. Alexandra had an Amended Note of $3 million which was convertible into 4 million shares and received 2.8 million warrants exercisable at $1.03 per share.

On March 28, 2007, the Company entered into an amendment to the Stillwater Agreement, originally dated July 21, 2006. On April 9, 2007, the sale of the Stillwater Note and Warrant was complete and the Company issued a 6% Senior Secured Convertible Note in the principal amount of $500 thousand and warrants to purchase 1,000,000 shares of the Company's common stock at an exercise price of $0.48. On July 23, 2007, Stillwater elected to convert $250 thousand of the principal amount of the Note and approximately $2 thousand of accrued and unpaid interest. Stillwater received 720,476 shares of Common Stock at the conversion price of $0.35. The remaining 50% was amended to an 8% Amended Senior Secured Convertible Note on July 23, 2007.

A family member of an outside director of eMagin was the holder of a Series A warrant to purchase an aggregate of 4,286 shares of common stock. As a result of the Stillwater transaction, the exercise price of all Series A warrants was reduced from $5.50 to $0.35 per share.

Note 15 – SEPARATION AND EMPLOYMENT AGREEMENTS

2009

On May 8, 2009, the Company signed a three year executive employment agreement with Paul Campbell to serve as the Company's Chief Financial Officer, Senior Vice President and Treasurer. Mr. Campbell had been serving as the Company's Interim Chief Financial Officer since April 15, 2008. Pursuant to the employment agreement, Mr. Campbell is paid an annual salary of $282 thousand and was granted options to purchase 340,000 shares of the Company's common stock which are exercisable at $1.09 per share, the market price on the date of the grant. The options vest as follows: one third of the options vest immediately and one third will vest annually on the subsequent two anniversary dates. If Mr. Campbell voluntarily terminates his employment with the Company, other than for good reason as defined in the employment agreement, he shall cease to accrue salary, personal time off, benefits and other compensation on the date of voluntary termination. The Company may terminate Mr. Campbell's employment with or without cause. If the Company terminates without cause, Mr. Campbell will be entitled to one year of salary.

In connection with the employment of Paul Campbell, the Company entered into an agreement with Tatum LLC ("Tatum"). Pursuant to the agreement with Tatum, the Company paid Tatum a signing fee of approximately $99 thousand and shall pay Tatum $1 thousand per month for as long as Mr. Campbell is employed by eMagin. In addition, the Company granted Tatum 60,000 options with the same vesting and exercise price as Mr. Campbell's and will pay Tatum 15% of any cash bonus that is paid to Mr. Campbell.

2008

Effective June 1, 2008, Andrew G. Sculley became the Company's Chief Executive Officer, President and Director pursuant to a three year employment agreement dated May 13, 2008. Pursuant to the agreement, Mr. Sculley will be paid a salary of $300 thousand, per annum, increasing to $310 thousand, per annum, after six months and to $320 thousand, per annum, at the end of the first year. Mr. Sculley was granted 500,000 qualified stock options which are exercisable at $0.81 per share, the market price on the date of the grant. The options vest as follows: 166,667 shares vest immediately, 166,667 vests on the first anniversary date, and 166,666 vests on the second anniversary date. If Mr. Sculley voluntarily terminates his employment with the Company, other than for good reason as defined in the employment agreement, he shall cease to accrue salary, personal time off, benefits and other compensation on the date of voluntary termination. The Company may terminate Mr. Sculley's employment with or without cause. If the Company terminates without cause, Mr. Sculley will be entitled to one year of salary.

Effective April 15, 2008, Mr. Paul Campbell began serving as the Company's Interim Chief Financial Officer pursuant to an agreement between the Company and Tatum, LLC, dated April 2, 2008 (the "Tatum Agreement"). Pursuant to the Tatum Agreement, for a minimum term of three months, Mr. Campbell will be paid a salary of $24.5 thousand per month and the Company will also pay Tatum a fee of $10.5 thousand per month plus $300 per business day. The Tatum Agreement was modified in January 2009 to exclude the $300 per business day. Either party may terminate the Tatum Agreement by providing the other with at least 30 days notice.

Effective April 14, 2008, Michael D. Fowler, the Company's Interim Chief Financial Officer, resigned his position with the Company. There was no separation agreement executed between Mr. Fowler and the Company. Michael D. Fowler became the Company's Interim Chief Financial Officer effective December 27, 2007.

Effective January 31, 2008, K.C. Park resigned as Interim Chief Executive Officer, President and Director. Dr. Park and the Company entered into a Separation Agreement and General Release ("Separation Agreement"). The Company recorded severance expense of $60 thousand. Dr. Park and the Company also entered into a Consulting Agreement

(“Agreement”) for the term, February 1 through August 1, 2008. Dr. Park was paid a sum of $75 thousand. In addition to the compensation, Dr. Park received non-qualified stock options to acquire 56,250 shares of common stock which are fully vested and exercisable on the dates of the grant. On May 1, 2008, Dr. Park received non-qualified stock options to acquire 51,703 shares of common stock at the fair market value and are fully vested.

Effective January 30, 2008, the Company entered into an amended employment agreement with Susan K. Jones, Chief Business Officer. The amended agreement provides for an annual base salary of $315 thousand, an extension of the term of the agreement to January 31, 2010, modification and clarification of the basis for the incentive component of her salary, and extension of the change-of-control/material change/termination-without-cause compensation payout periods to the greater of 18 months or the remaining term of the amended employment agreement. See Note 17 - Subsequent Events for additional disclosure.

Effective January 2, 2008, John Atherly resigned as Chief Financial Officer. There was no separation agreement executed between Mr. Atherly and the Company.

Note 16 - CONCENTRATIONS

The Company had one customer that accounted for approximately 12% of its total revenue in 2009 and two customers that each accounted for 11% of its total revenue in 2008.

For the year ended December 31, 2009, approximately 57% of the Company's net revenues were derived from customers in the United States and approximately 43% of the Company's net revenues were derived from international customers. For the year ended December 31, 2008, approximately 61% of the company's net revenues were derived from customers in the United States and approximately 39% of the Company's net revenues were derived from international customers. For the year ended December 31, 2007, approximately 51% of the company's net revenues were derived from customers in the United States and approximately 49% of the Company's net revenues were derived from international customers.

At December 31, 2009, there were ten customers who comprised 71% of the outstanding accounts receivable and at December 31, 2008, there were five customers who comprised 60% of the outstanding accounts receivable. The Company had one customer that accounted for 12% and two customers that accounted for 11% of its outstanding accounts receivable in 2009.

The Company purchases principally all of its silicon wafers from a single supplier located in Taiwan.

Note 17 - SUBSEQUENT EVENTS

On March 3, 2010, the Company and Susan Jones signed an agreement that extends the termination date of the employment agreement (as amended) between the Company and Ms. Jones until the sooner to occur of April 30, 2010, the date on which a new employment agreement is executed or when negotiation of a new employment agreement has ceased.

On March 17, 2010, Gary Jones, a former executive at the Company filed a complaint for damages in the Superior Court of the State of Washington for King County (the "Complaint") against the Company and the Company's Chief Financial Officer. The Complaint alleges unspecified damages for failure to pay contractual payments and wages under Washington law and includes, among other claims, breach of contract, breach of the duty of good faith and fair dealing, promissory estoppel and misrepresentation. The Company denies the allegations raised in the Complaint and intends to vigorously defend itself. There can be no assurance of the outcome of this matter.

Note 18 - Restatement

In this Amended 10-K, eMagin restated its previously issued consolidated financial statements as of and for the year ended December 31, 2009 to correct errors in the accounting for certain warrants and the calculation of EPS. The Company determined that certain warrants ("Warrants") issued contain anti-dilution provisions which should have been accounted for as derivatives in accordance with the provisions of ASC 815. Authoritative guidance, effective January 1, 2009, provides an approach for companies to evaluate whether an equity-linked financial instrument or embedded feature in the instrument is indexed to its own stock for the purpose of evaluating the scope exception in ASC 815. Since the Company has issued Warrants which contain anti-dilution features for the holder, they are not considered indexed to the Company's own stock, and therefore, do not qualify for the scope exception in ASC 815 and must be accounted for as derivatives. Accordingly, beginning January 1, 2009, the Company should have reclassified the Warrants as liabilities and recorded the Warrants at estimated fair value at each reporting date. Thereafter, changes in the warrant liability from period to period should have been recorded in the consolidated statements of operations. Effective January 1, 2009, the Company should have recorded a cumulative effect adjustment based on the grant date fair value of the outstanding Warrants and the change in fair value of the warrant liability from the issuance date through January 1, 2009.

The Company computed the fair value of the warrant liability using the Monte Carlo Simulation approach. The fair value as of the issuance date was $15.1 million and as of January 1, 2009 was $2.1 million. Accordingly, the Company recorded a warrant liability of $2.1 million, reduction in additional paid-in capital of $15.1 million and a reduction in accumulated deficit of $13.0 million. As of December 31, 2009, the Company computed the fair value of the warrant liability as $6.9 million, an increase of $4.7 million. The change in the warrant liability of $4.7 million was comprised of the change in the fair value of the warrants of $6.5 million offset by the fair value of the expired warrants of $0.02 million and the fair value of the exercised warrants of $1.8 million. For the year ended December 31, 2009, the Company recorded other expense in the Consolidated Statements of Operations of $6.5 million, the change in fair value of the warrant liability net of the fair value of expired warrants. The Consolidated Statements of Changes in Shareholders' Equity, Consolidated Statements of Cash Flows, and Notes to the Consolidated Financial Statements have been restated where applicable to reflect the adjustments.

The accompanying financial statements have been restated to report the following Warrants as derivative liabilities measured at estimated fair value, calculated using the Monte Carlo Simulation approach:

Warrant Issuance Dates	Number of Warrants Outstanding as of December 31, 2009	Exercise Price	Warrant Expiration Dates	Fair Value of Warrants at Issue Date (in thousands)	Fair Value of Warrants at January 1, 2009 (in thousands)	Fair Value of Warrants at December 31, 2009 (in thousands)
January 9, 2004	—	$ 0.35	January 8, 2009	$ 3,091	$ 15	$ —
October 25, 2004	650,001	$ 2.50	April 25, 2010	4,738	19	34
July 23, 2007	2,490,712	$ 1.03	July 21, 2011	5,031	1,120	2,222
July 23, 2007	1,000,000	$ 0.48	July 21, 2011	1,136	304	1,293
April 2, 2008	793,273	$ 1.13	April 2, 2013	561	224	1,041
December 22, 2008	1,875,467	$ 1.03	December 22, 2013	534	448	2,288
			Total Fair Value	$ 15,091	$ 2,130	$ 6,878

The table below is a reconciliation of the beginning and ending balances for the warrant liability:

	Number of Warrants	Warrant Issuance Dates	Fair Value of Warrants (in thousands)
Balance as of January 1, 2009			$ 2,130
Change in fair value of warrants			6,548
Fair value of warrants expired	107,052 shares	January 9, 2004	(15)
Fair value of warrants exercised	2,900,000 shares	July 23, 2007	(1,785)
Balance as of December 31, 2009			$ 6,878

Additionally, under ASC 260, "Earnings Per Share", entities that have issued securities other than common stock that participate in dividends with the common stock ("participating securities") are required to apply the two-class method to compute basic EPS. The two-class method is an earnings allocation method under which EPS is calculated for each class of common stock and participating security as if all such earnings had been distributed during the period. However, the participating convertible preferred stock is not required to absorb any loss. The Company has Convertible Preferred Stock - Series B which participates in dividends with the Company's common stock and therefore the Company should have calculated its quarterly interim EPS using the two-class method. Certain unaudited interim consolidated financial statements have been restated to reflect EPS calculated using the two-class method. (See Note 19)

The following tables summarize the effects of the restatement on the specific items presented in the Company's historical consolidated financial statements previously included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 :

Consolidated Balance Sheet (in thousands)	December 31, 2009 (As previously reported)	December 31, 2009 (As restated)
Warrant liability	$ —	$ 34
Total current liabilities	4,209	4,243
Warrant liability	—	6,844
Total liabilities	$ 4,209	$ 11,087
Shareholders' equity:		
Additional paid-in capital	$ 206,664	$ 193,358
Accumulated deficit	(196,910)	(190,482)
Total shareholders' equity	$ 9,771	$ 2,893

Consolidated Statements of Operations	For the Year Ended December 31, 2009	
(in thousands except share and per share data)	(As previously reported)	(As restated)

Change in fair value of warrant liability	$ —	$ (6,533)
Total other expense	$ (399)	$ (6,932)
Net income (loss)	$ 4,262	$ (2,271)
Income (loss) per share, basic	$ 0.26	$ (0.14)
Income (loss) per share, diluted	$ 0.17	$ (0.14)
Weighted average number of shares outstanding:		
Basic	16,344	16,344
Diluted	25,503	16,344

Consolidated Statements of Cash Flows (in thousands)	Year Ended December 31, 2009 (As previously reported)	(As restated)
Net income (loss)	$ 4,262	$ (2,271)
Change in fair value of warrant liability	—	6,533
Net cash provided by operating activities	$ 5,260	$ 5,260

Note 19 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2009 (Restated) and 2008 are as follows (in thousands except per share data):

	Quarters Ended			
	March 31, 2009 (Restated)	June 30, 2009 (Restated)	September 30, 2009 (Restated)	December 31, 2009 (Restated)
Revenues	$ 5,144	$ 5,852	$ 6,107	$ 6,719
Gross margin	$ 2,459	$ 3,799	$ 3,500	$ 3,889
Net (loss) income before provision for income tax	$ (419)	$ (912)	$ (2,125)	$ 1,275
Net (loss) income	$ (419)	$ (912)	$ (2,125)	$ 1,185
Net (loss) income per share – basic	$ (0.03)	$ (0.06)	$ (0.13)	$ 0.05
Net (loss) income per share – diluted	$ (0.03)	$ (0.06)	$ (0.13)	$ 0.04
Weighted average number of shares outstanding – basic	15,860	16,186	16,513	16,965
Weighted average number of shares outstanding –diluted	15,860	16,186	16,513	19,957

	Quarters Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Revenues	$ 2,665	$ 5,619	$ 5,185	$ 5,270
Gross margin	$ 352	$ 2,623	$ 2,384	$ 2,707
Net (loss) income before provision for income tax	$ (2,674)	$ (122)	$ 361	$ 576
Net (loss) income	$ (2,674)	$ (122)	$ 361	$ 576
Net (loss) income per share – basic	$ (0.21)	$ (0.01)	$ 0.02	$ 0.04
Net (loss) income per share – diluted	$ (0.21)	$ (0.01)	$ 0.02	$ 0.03
Weighted average number of shares outstanding – basic	12,621	14,321	14,617	15,113
Weighted average number of shares outstanding –diluted	12,621	14,321	23,430	23,907

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Our principal executive and principal financial officers have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this annual report. They have concluded that, based on such evaluation, our disclosure controls and procedures were not effective as of December 31, 2009.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Overview

Internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) refers to the process designed by, or under the supervision of, our principal executive officer and principal financial officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Management is responsible for establishing and maintaining adequate internal control over financial reporting for eMagin.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management has used the framework set forth in the report entitled "Internal Control -- Integrated Framework" published by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission to evaluate the effectiveness of eMagin's internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management's Assessment

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission.

(c) Changes in Internal Control over Financial Reporting

For the year ended December 31, 2008, we had identified in our Form 10-K the following material weaknesses:

Deficiencies pertaining to the lack of controls or ineffectively designed controls. Our control design analysis and process walk-throughs disclosed a number of instances where review approvals were undocumented, where established policies and procedures were not defined, and controls were not in place.

Deficiencies related to information technology control design and operating effectiveness weaknesses. This material weakness resulted from the absence of key formalized information technology policies and procedures and could result in (1) unauthorized system access, (2) application changes being implemented without adequate reliability testing, (3) inconsistent investigation of system errors and the absence of timely or properly considered remedial actions, and (4) over reliance on spreadsheet applications without quality control assurances. These factors could lead to material errors and misstatements to financial statements occurring without timely detection.

In 2009, we focused on remediation activities to address the material weakness in disclosure and financial reporting controls. We conducted testing and evaluation of the controls implemented as part of the remediation plan to ascertain that they were operating effectively. In the last two quarters of 2009, there has been substantial improvement in our internal control over financial reporting, as defined in Rules 13a-15(f) of the Exchange Act, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The substantial improvement is a result of the following measures that are now in place:

- Hired more qualified and experienced accounting personnel to perform month-end reviews and closing processes as well as to allow additional oversight and supervision.
- Implemented control procedures within the month and quarter end close processes including documentation of procedures and processes completed and approved by management.
- Reassigned and altered functional responsibilities among new and existing employees to provide appropriate segregation of duties among functional groups within the Company.
- Updated the Company's policies and procedures along with control matrices and implemented testing procedures to ensure ongoing compliance.
- Added additional information technology staffing and implemented information technology policies and procedures to ensure adequate system controls are in place and compliance testing occurs on a regular basis.

For the year ended December 31, 2009, our management has reassessed the effectiveness of our internal control over financial reporting and has determined that our internal control over financial reporting was not effective due to the following:

Restatment of Consolidted Financial Statments

On August 10, 2011, the Audit Committee of the Board of Directors ("Audit Committee") in consultation with the Company's management concluded that the financial statements included in the Company's Annual Reports issued on Form 10-K for the years ended December 31, 2009 and 2010 and quarterly reports issued on Form 10-Q for the quarters ended March 31, June 30, and September 30, 2009; March 31, June 30, and September 30, 2010; and March 31, 2011 did not use the proper method to calculate earnings per share and as a result, should not be relied upon. On August 15, 2011, after consulting with the Audit Committee on August 10, 2011 and with the Company's auditors and former auditors, management concluded that the Company did not properly account for certain common stock warrants as liabilities and as a result, the financial statements, as mentioned above, should not be relied upon. The Audit Committee authorized and directed Company's management to restate its consolidated financial statements for the above mentioned periods. As a result of a deficiency in our internal control over financial reporting relating to the accounting for common stock warrants, as of the end of the period covered by this report our management has reassessed the effectiveness of our disclosure controls and procedures and has determined that our disclosure controls and procedures were not effective.

Remediation Plan

Since the determination regarding this deficiency, we have devoted significant effort and resources to remediation and improvement of our internal control over financial reporting. While we had processes in place to identify and apply developments in accounting standards, we enhanced these processes to better evaluate our research of the nuances of complex accounting standards. Our enhancements included retaining a third party consultant, who is a technical accounting professional, to assist us in the interpretation and application of new and complex accounting guidance. Additionally, we have improved training of accounting personnel and communication among our internal staff, our legal team and our consultant. Management will continue to review and make necessary changes to the overall design of our internal control environment.

Other than mentioned above, there were no significant changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or that are reasonably likely to affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names of our directors and executive officers as of February 28, 2010:

Name	Age	Position
Andrew G. Sculley	58	Chief Executive Officer, President, and Director
Paul Campbell (4)	54	Chief Financial Officer
Susan K. Jones	58	Chief Business Officer, Secretary
Adm. Thomas Paulsen (Ret.) (2)(3*)	73	Chairman of the Board, Director
Claude Charles (1)(2)(3)(5)	72	Director
Paul Cronson	53	Director
Irwin Engelman (1*)	75	Director
Jacob Goldman (2*)(3)	88	Director
Brig. Gen. Stephen Seay (U.S. Army, Ret.) (1)(3)	63	Director

(1) Audit Committee
(2) Governance & Nominating Committee
(3) Compensation Committee
(4) On May 8, 2009, Paul Campbell became the Chief Financial Officer of the Company
(5) As of September 1, 2009, Claude Charles is a member of the Governance & Nominating and the Compensation Committees.

* Committee Chair

Andrew G. Sculley became the Company's Chief Executive Officer and President on June 1, 2008 and was appointed to the Board of Directors on November 2, 2009. Mr. Sculley served as the General Manager of Kodak's OLED systems Business Unit and Vice President of Kodak's Display Business from 2004 to 2008. From 2003 to 2006, he served on the Board of Directors of SK Display, a joint venture between Sanyo and Kodak. From 1996 to 2001 Mr. Sculley served as the Manager of Operations, CFO and member of the Board of Directors of Kodak Japan Ltd., where he managed Distribution, Information Technologies, Legal, Purchasing and Finance. Previously, he held positions in strategic planning and finance in Eastman Kodak Company. Mr. Sculley holds an MBA from Carnegie-Mellon University and an MS in physics from Cornell University. He attended Harvard University's International Senior Management Program while an executive at Kodak.

Paul Campbell became the Company's Chief Financial Officer as of May 8, 2009. Prior to this date, Paul Campbell had served as the Company's Interim Chief Financial Officer since April 15, 2008. Mr. Campbell is a partner with Tatum, LLC ("Tatum"), an executive services firm, since November 2007. Mr. Campbell served as the Chief Financial Officer of four public companies, including Checkers Drive-In Restaurants, Inc, which until 2006 was traded on the Nasdaq and as Chief Financial Officer of Famous Dave's of America, Inc., a publicly held company currently trading on the Nasdaq. Mr. Campbell also served as Chief Financial Officer of Sonus Corporation, a medical device retailer, and of Organic To Go, Inc., an emerging publicly-held food company, from May 2007 through October 2007. From 2001 through April 2007, Mr. Campbell owned and operated Campbell Capital, LLC, a consulting and investment firm in Seattle, Washington providing strategic planning and financing services to small businesses. Mr. Campbell received his Masters of Business Administration from Pepperdine University and his Bachelor of Arts degree in Business Economics from the University of California at Santa Barbara.

Susan K. Jones has served as Executive Vice President and Secretary since 1992, Chief Marketing and Strategy Officer since 2001, and assumed responsibility of Chief Business Officer in 2008. Ms. Jones has more than 30 years of industrial experience, including senior research, management, and marketing assignments at Texas Instruments and Merck, Sharp, & Dohme Pharmaceuticals. Ms. Jones serves on the boards or chairs committees for industry organizations including IEEE, SPIE, and SID. Ms. Jones served as a director of eMagin Corporation from 1993 to 2000 and was a director of Virtual Vision, Inc. Ms. Jones graduated from Lamar University with a B.S. in chemistry and biology, holds more than a dozen patents, and has authored more than 100 papers and talks.

Rear Admiral Thomas Paulsen (ret.) has served as a director since July 2003 and Non-Executive Chairman of the Board since 2007. He served as Interim CEO and President from January 2008 to May 2008. Admiral Paulsen served for over 34 years in the US Navy in Command Control, Communications and Intelligence (C3I), Telecommunications, Network Systems Operations, Computers and Computer Systems Operations until his retirement in 1994 as a Rear Admiral. He then served as Chief Information Officer for Williams Telecommunications. Admiral Paulsen has served as a director of Umbanet, Inc. since 2002. Since 2000, Admiral Paulsen has served on the Board of Governors of the Institute of Knowledge Management, George Washington University. Since 1994, he has served as the Chairman of the Advisory Board and President Emeritus of the Center for Advanced Technologies (CAT) and a Managing Partner on the National Knowledge and Intellectual Property Management Taskforce, a not-for-profit company headquartered in Dallas, Texas, and is a member of the Board of Governors for the Japanese American National Museum, Los Angeles, California.

Claude Charles has served as a director since April of 2000. During 2005 and 2006, Mr. Charles was lead independent non-executive director on the Board of Pacific Internet Inc, Singapore. Mr. Charles has served as President of Azur Capital Limited since 1999. From 1996 to 1998 Mr. Charles was Chairman of Equinox Group Holdings. Prior to 1996, Mr. Charles has also served as a director and in senior executive positions at SG Warburg and Co. Ltd., Peregrine Investment Holdings, Trident International Finance Ltd., and Dow Banking Corporation. Mr. Charles holds a B.S. in economics from the Wharton School at the University of Pennsylvania and a M.S. in international finance from Columbia University.

Paul Cronson has served as a director since July of 2003. Mr. Cronson is Managing Director of Larkspur Capital Corporation, which he co-founded in 1992. Larkspur is a broker dealer that is a member of FINRA and advises companies seeking private equity or debt. Mr. Cronson's career in finance began in 1979 at Laidlaw, Adams Peck where he worked in asset management and corporate finance. From 1983 to 1985, Mr. Cronson worked with Samuel Montagu Co., Inc. in London, where he marketed eurobond issuers and structured transactions. Subsequently from 1985 to 1987, he was employed by Chase Investment Bank Ltd., where he structured international debt securities and he developed "synthetic asset" products using derivatives. Returning to the U.S., he joined Peter Sharp Co., where he managed a real estate portfolio, structured financings and assisted with capital market investments until 1992. Mr. Cronson received his BA from Columbia College in 1979, and his MBA from Columbia College in 1982. He is on the Board of the Evelyn Sharp Foundation in New York, a private foundation supporting various not for profit endeavors.

Irwin Engelman has served as a director since May of 2005. He is currently a consultant to various industrial companies and is a director of Sanford C. Bernstein Mutual Funds, a publicly-traded company, and chairman of its audit committee. From November 1999 until April 2002, he served as Executive Vice President and Chief Financial Officer of YouthStream Media Networks, Inc., a media and retailing company serving high school and college markets. From 1992 until April 1999, he served as Executive Vice President and Chief Financial Officer of MacAndrews and Forbes Holdings, Inc., a privately-held financial holding company. From November 1998 until April 1999, he also served as Vice Chairman, Chief Administrative Officer and a director of Revlon, Inc., a publicly-traded consumer products company. From 1978 until 1992, he served as an executive officer of various public companies including International Specialty Products, Inc. (a subsidiary of GAF Holdings Inc.), CitiTrust Bancorporation, General Foods Corporation and The Singer Company. Mr. Engelman received a BBA in Accounting from Baruch College in 1955 and a Juris Doctorate from Brooklyn Law School in 1961. He was admitted practice law in the State of New York in 1962. In addition, he was licensed as a CPA in the State of New Jersey in 1966.

Dr. Jack Goldman joined our board of directors in February of 2003. Dr. Goldman is the retired senior vice-president for R&D and chief technical officer of the Xerox Corporation. While at Xerox, he founded and directed the celebrated Xerox PARC laboratory. Prior to joining Xerox, Dr. Goldman was Director of Ford Motor Company's Scientific Research Laboratory. He also served as Visiting Edwin Webster Professor at MIT. Dr. Goldman presently serves on the Boards of Directors of Umbanet Inc. and Medis Technologies Inc., and he has served on the Boards of Xerox, General Instrument Corp., United Brands, Intermagnetics General, GAF and Bank Leumi USA. He has also been active in government and professional advisory roles including service on the US Dept. of Commerce Technical Advisory Board, chairman of Statutory Visiting Committee of The National Bureau of Standards (National Institute of Standards and Technology), vice-president of the American Association for the Advancement of Science and president of the Connecticut Academy of Science and Engineering.

General Stephen M. Seay (U.S. Army, Ret.) has served as a director since January 2006. General Seay founded Seay Business Solutions, LLC, Florida veteran owned small business, in 2006, is an Associate in The Spectrum Group, Alexandria, Virginia and CMA & Associates, Virginia Beach, Virginia. He serves on the Board of Directors and as Treasurer for Kid’s House of Seminole County, Florida (children’s advocacy), Orlando Science Center, Orlando, Florida (STEM) and on the Board of Advisors, ADS Tactical Corporation, Virginia Beach, Virginia (force provider). He held a wide variety of command and staff positions during his thirty-three year Army career, culminating as the Program Executive Officer, Simulation, Training and Instrumentation (PEO STRI) from 2000-2005 and concurrently as Commanding General, Joint Contracting Command-Iraq/Head of Contracting Authority, Operation Iraqi Freedom, Iraq, 2004-2005. General Seay performs corporate and independent director responsibilities as a member of audit, compensation, finance and executive committees; as a corporate line of business, provides expertise in high technology operational modeling, simulation, education and training, command and control, cyber operations, strategic planning, resource management/allocation, operations research and system life cycle planning, programming, execution, and sustainment. He assists companies in forming partnerships. General Seay holds a Bachelor of Science degree from the University of New Hampshire and a Master of Science degree from the North Carolina State University. TS/SCI Clearance.

CORPORATE GOVERNANCE

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct and Ethics is posted on our website at http://www.emagin.com/investors.

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by filing a Current Report on Form 8-K with the SEC, disclosing such information.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than 10% of the issued and outstanding shares of eMagin common stock to file reports of initial ownership of common stock and other equity securities and subsequent changes in that ownership with the SEC. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2009 all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with.

General Information Concerning the Board of Directors

The Board of Directors of eMagin is classified into three classes: Class A, Class B and Class C. As of December 31, 2009, Irwin Engelman and Andrew Sculley are Class A Directors, who will hold office until the next Annual Meeting of our stockholders ("Annual Meeting"). Paul Cronson, Admiral Thomas Paulsen, and General Stephen Seay are Class B directors who will hold office until the next Annual Meeting. Claude Charles and Dr. Jacob Goldman are Class C directors who will hold office until the next Annual Meeting. There was no Annual Meeting held during 2009. In each case, each director will hold office until his successor is duly elected or appointed and qualified in the manner provided in our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws, or as otherwise provided by applicable law.

Our Board of Directors held 9 meetings during 2009. Our independent directors met in executive session on a periodic basis in connection with regular meetings, as well as in their capacity as members of our Audit Committee and Compensation Committee.

Compensation of Directors

Non-management directors receive options under the 2003 Stock Option Plan and 2008 Incentive Stock Plan. Under these Plans, a grant of options to purchase 15,000 shares of common stock will automatically be granted on the date a director is first elected or re-elected, or otherwise validly appointed to the Board with an exercise price per share equal to 100% of the market value of one share on the date of grant. Such options granted will expire ten years after the date of grant and will become fully vested at the end of the year granted. For the 2009 calendar year, Directors received an annual cash retainer of $10,000 and an annual stock retainer of 25,000 options, fully vested, at market price on the date of issuance. Directors are also granted options based on committee assignments consisting of options to purchase 10,000 shares per year for members of the Compensation committee, 10,000 shares for the Governance and Nominating committee and 15,000 shares for the Audit committee. Each committee chair will receive 5,000 additional shares which vest at the end of the year granted. In 2009, the chairs of the Audit and the Governance and Nominating committees received an additional 5,000 options. In 2009, the Non-executive Chairman received 100,000 shares for the years 2008 and 2009 which vested upon grant date. In 2009, the Directors received a special grant of 25,000 shares vested at grant date for services rendered in the years 2007 through 2009 and Jack Goldman and Claude Charles received a special grant of 25,000 shares which also vested at grant date. In addition, each non-management director receives $1,000 for each in-person Board meeting, and $500 for each teleconference meeting or Committee meeting. Directors are eligible for reimbursement for ordinary expenses incurred in connection with attendance at such meetings.

In 2010, the changes to the Directors' Compensation are as follows: the annual stock option grant will be 50,000 shares and there will be no stock option grant related to the individual committee participation; the Board meeting fees will increase to $1,250 for in-person and $750 for teleconference; there will be an additional per meeting fee to the Audit committee chair of $500 and the Governance and Nominating and Compensation chairs of $250, each; and the annual option grant of 50,000 shares to the Non-executive Chairman will vest at the end of the grant year.

Audit Committee. The Audit Committee is responsible for determining the adequacy of our internal accounting and financial controls, supervising matters relating to audit functions, reviewing and setting internal policies and procedures regarding audits, accounting and other financial controls, reviewing the results of our audit performed by the independent public accountants, and recommending the selection of independent public accountants. The Audit Committee has adopted an Audit Charter, which is posted on our website at http://www.emagin.com/investors. The Audit Committee is composed of three Directors, Claude Charles, Irwin Engelman, and General Stephen Seay. The Board has determined that each of the members of the Audit Committee is unrelated, an outside member with no other affiliation with us and is independent. The Board has determined that Mr. Engelman is an “audit committee financial expert” as defined by the SEC. During 2009, the Audit Committee held 6 meetings in person or through a conference call.

Compensation Committee. The Compensation Committee determines matters pertaining to the compensation and expense reporting of certain of our executive officers, and administers our stock option, incentive compensation, and employee stock purchase plans. The Compensation Committee is presently composed of four Directors, Jack Goldman, Thomas Paulsen, Claude Charles and Stephen Seay, each of whom the Board has determined to be independent and none of whom has been an employee of the Company. During 2009, the Compensation Committee held 5 meetings in person or through a conference call.

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for considering potential Board members, nominating Directors for election to the Board, implementing the Company’s corporate governance and ethics policies, and for all other purposes outlined in the Governance and Nominating Committee Charter, which is posted on our website at http://www.emagin.com/investors. The Governance and Nominating Committee is composed of Jack Goldman, Claude Charles and Thomas Paulsen, each of whom the Board has determined to be independent. During 2009, the Governance and Nominating Committee held 4 meetings in person or through a conference call.

Nomination of Directors

As provided in its charter and our company's corporate governance principles, the Governance and Nominating Committee is responsible for identifying individuals qualified to become directors. The Governance and Nominating Committee seeks to identify director candidates based on input provided by a number of sources, including (1) the Governance and Nominating Committee members, (2) our other directors, (3) our stockholders, (4) our Chief Executive Officer or Chairman, and (5) third parties such as professional search firms. In evaluating potential candidates for director, the Nominating and Corporate Governance Committee considers the entirety of each candidate's credentials.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of the Board of Directors. However, at a minimum, candidates for director must possess:

- high personal and professional ethics and integrity;
- the ability to exercise sound judgment;
- the ability to make independent analytical inquiries;
- a willingness and ability to devote adequate time and resources to diligently perform Board and committee duties; and
- the appropriate and relevant business experience and acumen.

In addition to these minimum qualifications, the Governance and Nominating Committee also takes into account when considering whether to nominate a potential director candidate the following factors:

- whether the person possesses specific industry expertise and familiarity with general issues affecting our business;
- whether the person's nomination and election would enable the Board to have a member that qualifies as an "audit committee financial expert" as such term is defined by the Securities and Exchange Commission (the "SEC") in Item 401 of Regulation S-K;
- whether the person would qualify as an "independent" director under the listing standards of the OTC Bulletin Board;
- the importance of continuity of the existing composition of the Board of Directors to provide long term stability and experienced oversight; and
- the importance of diversified Board membership, in terms of both the individuals involved and their various experiences and areas of expertise.

Shareholder Communications

Shareholders requesting communication with Directors can do so by writing to eMagin Corporation, c/o Corporate Secretary, 3006 Northup Way, Suite 103, Bellevue, WA 98004, or emailing to sjones@emagin.com. At this time we do not screen communications received and would forward any requests directly to the named Director. If no Director was named in a general inquiry, the Secretary would contact either the Chairman or the Chairman of a particular committee, as appropriate. We do not provide the physical address, email address, or phone numbers of Directors to outside parties without a Director's permission.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

This section describes the compensation program for our executive officers. In particular, this section focuses on our 2009 compensation program and related decisions.

Compensation Discussion and Analysis

The objectives of our compensation program are as follows:

- Reward performance that drives substantial increases in shareholder value, as evidenced through both future operating profits and increased market price of our common shares; and
- Attract, hire and retain well-qualified executives.

The compensation level of our executives generally reflects their unique position and incentive to positively affect our future operating performance and shareholder value. Part of the compensation of our executives is from equity compensation, primarily through stock option grants or restricted stock awards. The stock option exercise price is generally the fair market value of the stock on the date of grant. Therefore, a gain is only recognized if the value of the stock increases, which promotes a long term alignment between the interests of the Company’s executives and its shareholders. For that reason, stock options are a component of 100% of our employees’ salary package.

Specific salary and bonus levels, as well as the amount and timing of equity incentive grants, are determined informally and judgmentally, on an individual-case basis, taking into consideration each executive's unique talents and experience as they relate to our needs. Executive compensation is paid or granted pursuant to each executive's compensation agreement. Compensation adjustments are made occasionally based on changes in an executive's level of responsibility or on changed local and specific executive employment market conditions.

The Board of Directors has established a Compensation Committee, comprised exclusively of independent outside directors which approves all compensation and awards to executive management. The members of the Compensation Committee have extensive executive level experience in other companies and bring a perspective of reasonableness to compensation matters with our Company. In addition, the Compensation Committee compares executive compensation practices of similar companies at similar stages of development.

Generally on its own initiative, at least annually, the Compensation Committee reviews the performance of executives and establishes compensation levels based on the performance evaluation, historical compensation levels of the executives, levels of responsibility and contributions to the Company, and comparable position studies provided by independent sources. With respect to equity compensation, the Compensation Committee approves all option grants, generally based on the recommendation of the president and chief executive officer and has delegated granting authority to the president and chief executive officer or, on occasion, his designee. Executives are eligible to receive bonus compensation at the discretion of the Compensation Committee, which is primarily based on the achievement of certain goals and objectives and the executive’s contributions to the Company. Executives also are entitled to participate in the same benefit plans that are available to other Company employees.

Compensation for the Chairman

For 2009, Admiral Paulsen received an annual stipend of $60,000 for serving as Non-Executive Chairman of the Board, an annual cash retainer of $10,000 for serving as a director, and meetings fees.

Summary Compensation Table

The following table sets forth information regarding compensation paid to our principal executive officer, principal financial officer, and our highest paid executive officer, all of whose total annual salary and bonus for the years ended December 31, 2009, 2008 and 2007 exceeded $100,000.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Bonus ($)	Stock Awards ($)		Option awards ($), (a)	Non-equity incentive plan compens-ation ($)	Change in pension value and non qualified deferred compensation ($)	All Other Compensation ($)		Total ($)
Andrew G.											
Sculley,	2009	317,115	-	-		-	-	-	-		317,115
President	2008	161,923	-	-		287,150	-	-	-		449,073
and Chief	2007	-	-	-		-	-	-	-		-
Executive Officer (1)											
K.C. Park,	2009	-	-	-		-	-	-	-	-	-
Interim	2008	105,817	60,000	-	(7)	42,371	-	-	75,000	(8)	283,188
President	2007	313,462	-	40,000	(9)	-	-	-	-		353,462
and Chief Executive Officer (2)											
Gary	2009	-	-	-		-	-	-	-		-
Jones,	2008	-	-	-		-	-	-	-		-
President	2007	102,060	-	430,000	(10)	-	-	-	51,638	(11)	583,698
and Chief Executive Officer (3)											
Paul	2009	287,331	-	-		222,326	-	-	-		509,657
Campbell,	2008	203,539	-	-		-	-	-	-		203,539
Chief	2007	-	-	-		-	-	-	-		-
Financial Officer (4)											
Michael	2009	-	-	-		-	-	-	-		-
D. Fowler,	2008	84,808	-	-		-	-	-	-		84,808
Interim	2007	-	-	-		-	-	-	-		-
Chief Financial Officer (5)											
	2009	-	-	-		-	-	-	-		-

John D.	2008	44,628	-	-	-	-	-	-		44,628
Atherly, Chief Financial Officer (6)	2007	243,000	-	-	-	-	-	-		243,000
Susan	2009	316,212	-	-	-	-	-	238,220	(13)	554,432
Jones,	2008	329,916	-	-	-	-	-	189,325	(13)	519,241
Executive Vice President, Chief Business Officer, and Secretary	2007	278,888	-	-	-	-	-	175,184	(13)	454,072

(1) Mr. Sculley has been serving as our President and Chief Executive Officer as of June 1, 2008.
(2) Dr. Park was appointed Interim President and Chief Executive Officer in January 2007 and resigned his post in January 2008. Prior to January 2007, Dr. Park served as Executive Vice President of International Operations. Dr. Park provided consulting services from February 1, 2008 through August 1, 2008.
(3) Mr. Jones resigned as President and Chief Executive Officer in January 2007.
(4) Mr. Campbell has been serving as our Chief Financial Officer as of May 8, 2009. Prior to this date, he had served as our Interim Chief Financial Officer since April 15, 2008.
(5) Mr. Fowler resigned as Interim Chief Financial Officer as of April 14, 2008.
(6) Mr. Atherly resigned as Chief Financial Officer in January 2008.
(7) This amount represents options issued pursuant to Mr. Park’s consulting agreement.
(8) This amount represent consulting fees paid pursuant to Mr. Park’s consulting agreement.
(9) This amount represents a retention bonus in the form of a stock grant that was issued to the named executive officer.
(10) This amount represents a payment in the form of a stock grant pursuant to Mr. Jones' severance agreement. Previously granted options that remained unexercised were also forfeited pursuant to the severance agreement.
(11) This amount represents legal and accounting fee reimbursement for the benefit of the named executive officer.
(12) This amount represents relocation expense reimbursement for the benefit of the named executive officer.
(13) This amount represents sales incentive compensation earned by the named executive officer.
Column note:
(a) The amounts in this column represent the fair value of option awards to the named executive officer as computed on the date of the option grants using the Black-Scholes option-pricing model.

Grants of Plan-Based Awards

The following table sets forth information regarding stock option awards to our named executive officers under our stock option plans for the year ended December 31, 2009 as follows:

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Options Awards ($/Sh)	Total Grant Date Fair Value ($)
Paul Campbell	May 8, 2009(1)	340,000	1.09	222,326

(1) 1/3 of the grant is exercisable immediately; 1/3 of the grant is exercisable on the first anniversary and the remaining 1/3 is exercisable on the second anniversary.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information with respect to the outstanding equity awards of our principal executive officers and principal financial officer during 2009, and each person who served as an executive officer of eMagin Corporation as of December 31, 2009:

OUTSTANDING EQUITY AWARDS AT YEAR-END

	Option Awards					Stock Awards			
Name and principal position	Number of securities underlying unexercised options (#) Exercisable	Number of securities underlying unexercised options (#) Unexercisable	Equity incentive plan awards: Number of securities underlying unexercised options (#), (a)	Options exercise price ($)	Option expiration Date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested ($)	Equity incentive plan awards: Number of unearned shares units or other rights that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)
Andrew G. Sculley, President	333,333	166,667	500,000	0.81	June 2, 2015	-	-	-	-

and Chief Executive Officer										
Paul Campbell, Chief Financial Officer (1)	113,333	226,667	340,000		1.09	May 8, 2014	-	-	-	-
Susan Jones, Executive Vice President, Chief Business Officer, and Secretary	16,770	-	16,770	(a)	2.60	January 11, 2010	-	-	-	-
	9,685	-	9,685	(a)	2.60	January 11, 2010	-	-	-	-
	16,250	-	16,250	(a)	2.60	March 17, 2010	-	-	-	-
	11,700	-	11,700	(a)	2.60	November 30, 2012	-	-	-	-
	11,932	-	11,932	(a)	2.60	April 24, 2013	-	-	-	-
	7,159	-	7,159	(a)	2.60	August 30, 2013	-	-	-	-
	7,159	-	7,159	(a)	2.60	December 1, 2013	-	-	-	-

(1) Mr. Campbell has been serving as our Chief Financial Officer as of May 8, 2009. Prior to this date, he served as our Interim Chief Financial Officer since April 15, 2008.
Column note:
On November 3, 2006, a reverse stock split, ratio of 1-for-10, became effective. All stock options presented reflect the stock split.
(a) The options were repriced. On July 21, 2006, certain employees agreed to cancel a portion of their existing stock options in return for repricing the remaining stock options at $2.60 per share. The repriced unvested options continued to vest on the original schedule.

Option Exercises and Stock Vested

No executive officer identified in the Summary Compensation Table above exercised an option in fiscal year 2009.

Pension Benefits

eMagin does not have any plan which provides for payments or other benefits at, following, or in connection with retirement.

Non-qualified Deferred Compensation

eMagin does not have any defined contribution or other plan which provides for the deferral of compensation on a basis that is not tax-qualified.

Employment Agreements

2009

On May 8, 2009, the Company signed a three year executive employment agreement with Paul Campbell to serve as the Company's Chief Financial Officer, Senior Vice President and Treasurer. Mr. Campbell had been serving as the Company's Interim Chief Financial Officer since April 15, 2008. Pursuant to the employment agreement, Mr. Campbell is paid an annual salary of $282,000 and was granted options to purchase 340,000 shares of the Company's common stock which are exercisable at $1.09 per share, the market price on the date of the grant. The options vest as follows: one third of the options vest immediately and one third will vest annually on the subsequent two anniversary dates. . If Mr. Campbell voluntarily terminates his employment with the Company, other than for good reason as defined in the employment agreement, he shall cease to accrue salary, personal time off, benefits and other compensation on the date of voluntary termination. The Company may terminate Mr. Campbell's employment with or without cause. If the Company terminates without cause, Mr. Campbell will be entitled to one year of salary.

2008

Effective June 1, 2008, Andrew G. Sculley became the Company's Chief Executive Officer, President and Director pursuant to a three year employment agreement dated May 13, 2008. Pursuant to the agreement, Mr. Sculley will be paid a salary of $300,000, per annum, increasing to $310,000, per annum, after six months and to $320,000, per annum, at the end of the first year. Mr. Sculley was granted 500,000 qualified stock options which are exercisable at $0.81 per share, the market price on the date of the grant. The options vest as follows: 166,667 shares vest immediately, 166,667 vests on the first anniversary date, and 166,666 vests on the second anniversary date. If Mr. Sculley voluntarily terminates his employment with the Company, other than for good reason as defined in the employment agreement, he shall cease to accrue salary, personal time off, benefits and other compensation on the date of voluntary termination. The Company may terminate Mr. Sculley's employment with or without cause. If the Company terminates without cause, Mr. Sculley will be entitled to one year of salary.

Effective April 15, 2008, Mr. Paul Campbell began serving as the Company's Interim Chief Financial Officer pursuant to an agreement between the Company and Tatum, LLC, dated April 2, 2008 (the "Tatum Agreement"). Pursuant to the Tatum Agreement, for a minimum term of three months, Mr. Campbell will be paid a salary of $24,500 per month and the Company will also pay Tatum a fee of $10,500 per month plus $300 per business day. The Tatum Agreement was modified in January 2009 to exclude the $300 per business day. Either party may terminate the Tatum Agreement by providing the other with at least 30 days notice.

Effective April 14, 2008, Michael D. Fowler, the Company's Interim Chief Financial Officer, resigned his position with the Company. There was no separation agreement executed between Mr. Fowler and the Company. Michael D. Fowler became the Company's Interim Chief Financial Officer effective December 27, 2007.

Effective January 31, 2008, K.C. Park resigned as Interim Chief Executive Officer, President and Director. Dr. Park and the Company entered into a Separation Agreement and General Release ("Separation Agreement"). The Company recorded severance expense of $60,000. Dr. Park and the Company also entered into a Consulting Agreement ("Agreement") for the term, February 1 through August 1, 2008. Dr. Park was paid a sum of $75,000. In addition to the compensation, Dr. Park received non-qualified stock options to acquire 56,250 shares of common stock which are fully vested and exercisable on the dates of the grant. On May 1, 2008, Dr. Park received non-qualified stock options to acquire 51,703 shares of common stock at the fair market value and are fully vested.

Effective January 30, 2008, the Company entered into an amended employment agreement with Susan K. Jones, Chief Business Officer. The amended agreement provides for an annual base salary of $315 thousand, an extension of the term of the agreement to January 31, 2010, modification and clarification of the basis for the incentive component of her salary, and extension of the change-of-control/material change/termination-without-cause compensation payout periods to the greater of 18 months or the remaining term of the amended employment agreement. On March 3, 2010, the Company and Susan Jones signed an agreement that extends the termination date of the employment agreement (as amended) between the Company and Ms. Jones until the sooner to occur of April 30, 2010, the date on which a new employment agreement is executed or when negotiation of a new employment agreement has ceased.

Effective January 2, 2008, John Atherly resigned as Chief Financial Officer. There was no separation agreement executed between Mr. Atherly and the Company.

Potential Payments Upon Termination or Change-in-Control

The following table sets forth information regarding potential payments and benefits our principal executive officers would receive upon termination of employment under specified circumstances, assuming that the triggering event in question occurred on December 31, 2009, the last business day of the fiscal year:

Name	Voluntary Resignation w/o Good Reason		Voluntary Resignation for Good Reason		Involuntary Termination without Cause		Involuntary Termination with Cause	Involuntary Termination with a Change in Control	
Andrew Sculley									
Cash severance	$ —		$ 320,000	(1)	$ 320,000	(1)	$ —	$ 320,000	(1)
Vesting of stock options	$ —		$ 178,333	(2)	$ 178,333	(2)	$ —	$ 178,333	(2)
Paul Campbell									
Cash verance	$ —		$ 282,000	(1)	$ 282,000	(1)	$ —	$ 282,000	(1)
Vesting of stock options	$		$ 179,067	(2)	$ 179,067	(2)	$ —	$ 179,067	(2)
Susan Jones									
Cash severance	$ 359,074	(3)	$ 875,648	(4)	$ 875,648	(4)	$ —	$ 875,648	(4)
Post-termination health and welfare	$ —		$ 12,036	(5)	$ 12,036	(5)	$ —	$ 12,036	(5)
Vesting of stock options	$ —		$ —	(6)	$ —	(6)	$ —	$ —	(6)

(1) This amount reflects the sum that is payable at the discretion of the Company either (i) as a lump sum or (ii) in twelve monthly payments to the named executive upon the triggering event. All calculations were made as of December 31, 2009 using then current salary figures for the named executive.
(2) This amount reflects the value of the stock options awards that were unvested as of December 31, 2009 which would accelerate and vest under the terms of eMagin's option plans following a triggering event. The closing market share price for the Company's common stock was $1.88 at December 31, 2009.
(3) This amount is comprised of salary that is payable at the discretion of the Company either (i) as a lump sum or (ii) in six monthly payments to the named executive upon the triggering event and incentive compensation that accrues through the end of the third sequential quarter after the triggering event and payable on a quarterly basis to the named executive. All calculations were made as of December 31, 2009 using then current salary figures for the named executive.
(4) This amount is comprised of salary that is payable at the discretion of the Company either (i) as a lump sum or (ii) in eighteen monthly payments to the named executive upon the triggering event and incentive compensation that accrues for eighteen months following the triggering event and payable on a quarterly basis to the named executive. All calculations were made as of December 31, 2009 using then current salary figures for the named executive.
(5) This amount reflects the COBRA payments for health and dental benefits that eMagin would make on behalf of the named executive.
(6) This amount would reflect the value of the stock option awards that were unvested as of December 31, 2009 which would accelerate and vest under the terms of eMagin's option plans following a triggering event. As of December 31, 2009, all stock options were fully vested.

Director Compensation Arrangements

The following table sets forth with respect to the named director, compensation information inclusive of equity awards and payments made in the year ended December 31, 2009. The table includes only directors that were not employees of eMagin Corporation. Any director who was also an executive officer is included in the Summary Compensation Table.

DIRECTOR COMPENSATION

Name	Fees earned or paid in cash($)	Stock awards ($)	Option awards($)	Non-equity incentive plan compensation($)	Change in pension value and nonqualified deferred compensation earnings($)	All other compensation ($)	Total($)
Claude Charles	26,500	-	63,541	-	-	-	90,041
Paul Cronson	15,500	-	32,264	-	-	-	47,764
Irwin Engelman	19,500	-	52,264	-	-	-	71,764
Jack Goldman	23,000	-	75,541	-	-	-	98,541
Thomas Paulsen	88,000	-	97,264	-	-	-	185,264
Stephen Seay	22,500	-	57,264	-	-	-	79,764

The following table sets forth information with respect to the outstanding equity awards of our directors as of December 31, 2009:

OUTSTANDING EQUITY AWARDS AT YEAR-END

	Option awards					Stock awards			
	Number of securities underlying unexercised options (#)	Number of securities underlying unexercised options (#)	Equity incentive plan awards: Number of securities underlying unexercised options	Options exercise price	Option expiration	Number of shares or units of stock that have not vested	Market value of shares or units of stock that have not vested	Equity incentive plan awards: Number of unearned shares other rights that have not vested	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested
Name and principal position	Exercisable	Unexercisable	(#), (a)	($)	Date	(#)	($)	(#)	($)
Claude Charles	1,000	-	1,000	3.50	January 2, 2010	-	-	-	-
	975	-	975	2.60	July 2, 2010	-	-	-	-
	650	-	650	2.60	September 2, 2010	-	-	-	-
	3,250	-	3,250	2.60	April 5, 2011	-	-	-	-
	1,950	-	1,950	2.60	June 15, 2014	-	-	-	-
	975	-	975	2.60	September 30, 2015	-	-	-	-
	3,900	-	3,900	2.60	December 31, 2015	-	-	-	-
	12,700	-	12,700	1.51	November 23, 2017	-	-	-	-
	25,000	-	25,000	1.44	December 3, 2017	-	-	-	-
	25,000	-	25,000	1.35	January 2, 2018	-	-	-	-
	30,000	-	30,000	0.70	July 24, 2018	-	-	-	-
	12,500	-	12,500	0.70	April 1, 2019	-	-	-	-
	52,500	-	52,500	1.18	July 1, 2019	-	-	-	-
	25,000	-	25,000	1.05	July 13. 2019	-	-	-	-
	4,875	-	4,875	2.60		-	-	-	-

Paul Cronson					July 2, 2010					
	1,625	-	1,625	2.60	June 15, 2014	-	-	-	-
	3,900	-	3,900	2.60	December 31, 2015	-	-	-	-
	10,400	-	10,400	1.51	November 23, 2017	-	-	-	-
	25,000	-	25,000	1.44	December 3, 2017	-	-	-	-
	25,000	-	25,000	1.35	January 2, 2018	-	-	-	-
	12,500	-	12,500	0.70	April 1, 2019	-	-	-	-
	12,500	-	12,500	1.18	July 1, 2019	-	-	-	-
	25,000	-	25,000	1.05	July 13. 2019	-	-	-	-
Irwin Engelman	3,900	-	3,900	2.60	October 3, 2012	-	-	-	-
	975	-	975	2.60	September 30, 2015	-	-	-	-
	163	-	163	2.60	October 3, 2015	-	-	-	-
	5,038	-	5,038	1.51	November 23, 2017	-	-	-	-
	25,000	-	25,000	1.44	December 3, 2017	-	-	-	-
	25,000	-	25,000	1.35	January 2, 2018	-	-	-	-
	30,000	-	30,000	0.70	July 24, 2018	-	-	-	-
	12,500	-	12,500	0.70	April 1, 2019	-	-	-	-
	37,500	-	37,500	1.18	July 1, 2019	-	-	-	-
	25,000	-	25,000	1.05	July 13. 2019	-	-	-	-
Jacob Goldman	650	-	650	2.60	July 2, 2010	-	-	-	-
	3,900	-	3,900	2.60	September 2, 2010	-	-	-	-
	2,113	-	2,113	2.60	June 15, 2014	-	-	-	-
	650	-	650	2.60	September 30, 2015	-	-	-	-
	488	-	488	2.60	October 3, 2015	-	-	-	-
	3,900	-	3,900	2.60		-	-	-	-

				December 31, 2015				
12,026	-	12,026	1.51	November 23, 2017	-	-	-	-
25,000	-	25,000	1.44	December 3, 2017	-	-	-	-
25,000	-	25,000	1.35	January 2, 2018	-	-	-	-
30,000	-	30,000	0.70	July 24, 2018	-	-	-	-
12,500	-	12,500	0.70	April 1, 2019	-	-	-	-
67,500	-	67,500	1.18	July 1, 2019	-	-	-	-
25,000	-	25,000	1.05	July 13. 2019	-	-	-	-

Thomas Paulsen	3,900	-	3,900	2.60	July 30, 2010	-	-	-	-
	1,300	-	1,300	2.60	June 15, 2014	-	-	-	-
	1,625	-	1,625	2.60	September 30, 2015	-	-	-	-
	3,250	-	3,250	2.60	October 3, 2015	-	-	-	-
	813	-	813	2.60	December 31, 2015	-	-	-	-
	11,213	-	11,213	1.51	November 23, 2017	-	-	-	-
	25,000	-	25,000	1.44	December 3, 2017	-	-	-	-
	25,000	-	25,000	1.35	January 2, 2018	-	-	-	-
	20,000	-	20,000	0.70	July 24, 2018	-	-	-	-
	112,500	-	112,500	0.70	April 1, 2019	-	-	-	-
	37,500	-	37,500	1.18	July 1, 2019	-	-	-	-
	25,000	-	25,000	1.05	July 13. 2019	-	-	-	-
Stephen Seay	3,900	-	3,900	2.60	February 14, 2016	-	-	-	-
	3,900	-	3,900	1.51	November 23, 2017	-	-	-	-
	25,000	-	25,000	1.44	December 3, 2017	-	-	-	-
	25,000	-	25,000	1.35	January 2, 2018	-	-	-	-
	20,000	-	20,000	0.70	July 24, 2018	-	-	-	-
	12,500	-	12,500	0.70	April 1, 2019	-	-	-	-
	37,500	-	37,500	1.18	July 1, 2019	-	-	-	-
	25,000	-	25,000	1.05	July 13. 2019	-	-	-	-

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee has been an officer or employee of eMagin during years ending December 31, 2007, 2008 and 2009, except as noted below. In addition, during the most recent fiscal year, no eMagin executive officer served on the Compensation Committee (or equivalent), or the Board, of another entity whose executive officer(s) served on our Compensation Committee or Board.   On January 31, 2008, Dr. K.C. Park resigned as our Interim Chief Executive Officer and President and Thomas Paulsen, a director and Chairman of both the Board of Directors and the Compensation Committee, assumed that role on an interim basis until June 1, 2008 when Andrew G. Sculley, Jr. joined the Company as Chief Executive Officer and President. No change in Admiral Paulsen’s compensation occurred as a result of his accepting the temporary position of Interim Chief Executive Officer and President.

Compensation Committee Report

The Committee has reviewed the Compensation Discussion and Analysis and discussed that analysis with management. Based on its review and discussions with management, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in eMagin's 10-K. This report is provided by the following independent directors, who comprise the Committee:

Thomas Paulsen (Chairman)
Jacob Goldman
Stephen Seay
Claude Charles

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth the number of shares known to be owned by all persons who own at least 5% of eMagin's outstanding common stock, the Company's directors, the executive officers, and the directors and executive officers as a group as of February 28, 2010, unless otherwise noted. Unless otherwise indicated, the stockholders listed in the table have sole voting and investment power with respect to the shares indicated.

Name of Beneficial Owner	Common Stock Beneficially Owned	Percentage of Common Stock	
Stillwater LLC (1)	13,137,958	36.0	%
Ginola Limited (2)	5,079,856	13.9	%
Rainbow Gate Corporation (3)	1,951,037	5.3	%
Susan K Jones (4)	608,260	1.7	%
Paul Cronson (5)	610,031	1.7	%
Andrew G. Sculley (6)	333,334	*	
Jack Goldman (7)	208,727	*	
Thomas Paulsen (8)	267,101	*	
Claude Charles (9)	194,400	*	
Irwin Engelman (10)	165,076	*	
Stephen Seay (11)	152,800	*	
Paul Campbell (12)	113,333	*	
All executive officers and directors as a group (consisting of 9 individuals) (13)	2,653,062	7.3	%

*Less than 1% of the outstanding common stock

** Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options, warrants, or preferred shares exercisable or convertible within 60 days of February 28, 2010 are deemed outstanding for computing the percentage of the person holding such option or warrant. Percentages are based on a total of 36,514,371 shares: 17,073,558 shares of common stock outstanding on February 28, 2010 and 19,440,813 shares issuable upon the exercise of options, warrants exercisable, and preferred shares convertible on or within 60 days of February 28, 2010, as described below.

(1) This figure represents: (i) 2,969,819 shares of common stock owned by Stillwater LLC, which includes 276,084 shares of common stock owned by Rainbow Gate Corporation, in which the sole member of Stillwater LLC is the investment manager of Rainbow Gate Corporation; (ii) warrants held by Stillwater LLC to purchase 3,853,472 shares of common stock, which includes warrants to purchase 737,620 shares of common stock held by Rainbow Gate Corporation, in which the sole member of Stillwater LLC is the investment manager of Rainbow Gate Corporation; and (iii) 6,314,667 shares of common stock underlying convertible preferred shares which includes 937,333 shares of common stock underlying convertible preferred shares held by Rainbow Gate Corporation, in which the sole member

of Stillwater LLC is the investment manager of Rainbow Gate Corporation. Mortimer D.A. Sackler exercises the sole voting power with respect to the shares held in the name of Stillwater LLC as sole member, and Mortimer D.A. Sackler exercises the sole voting power with respect to the shares held in the name of Rainbow Gate Corporation as investment manager; therefore Stillwater LLC is deemed to beneficially own the shares held by Rainbow Gate as “beneficially owned” but Stillwater LLC disclaims beneficial ownership of such shares.

(2) This figure represents: (i) 1,257,629 shares of common stock owned by Ginola Limited, which include: 276,084 shares of common stock held indirectly by Rainbow Gate Corporation, in which the sole shareholder of Ginola Limited is also the sole shareholder of Rainbow Gate Corporation; 65,080 shares of common stock owned by Mount Union Corp.; 57,372 shares of common stock owned by Chelsea Trust Company Limited, as trustee (Ginola Limited disclaims beneficial ownership of the shares owned by Mount Union Corp. and Chelsea Trust Company Limited, as trustee); and 284,736 shares of common stock owned by Crestflower Corporation, in which the sole shareholder of Crestflower Corporation is Ginola Limited; and (ii) warrants held by Ginola Limited to purchase 1,814,227 shares of common stock, which include: warrants to purchase 737,620 shares of common stock held by Rainbow Gate Corporation, in which the sole shareholder of Ginola Limited is also the sole shareholder of Rainbow Gate Corporation; warrants to purchase 32,540 shares of common stock owned by Mount Union Corp.; warrants to purchase 27,273 shares of common stock held indirectly by Chelsea Trust Company Limited, as trustee (Ginola Limited disclaims beneficial ownership of the shares owned by Mount Union Corp. and Chelsea Trust Company Limited, as trustee); and warrants to purchase 120,193 shares of common stock held by Crestflower Corporation, in which the sole shareholder of Crestflower Corporation is Ginola Limited; and (iii) 2,008,000 shares of common stock underlying convertible preferred shares, which includes 937,333 shares of common stock underlying convertible preferred shares held by Rainbow Gate Corporation, in which the sole shareholder of Ginola Limited is also the sole shareholder of Rainbow Gate Corporation. Stillwater LLC and Ginola Limited are beneficially owned by separate individuals and therefore do not exert voting control over one another. However, Stillwater LLC does include the shares held by Rainbow Gate as “beneficially owned” since the sole member of Stillwater LLC is investment manager and sole director of Rainbow Gate Corporation and exerts voting control over such shares but Stillwater LLC disclaims beneficial ownership of such shares. Jonathan White, Steven Meiklejohn, and Joerg Fischer exercise the shared voting power with respect to the shares held in the name of Mount Union Corp. Stuart Baker, Joerg Fischer, Charles Lubar, Christopher Mitchell, Leslie Schreyer and Jonathan White exercise the shared voting power with respect to the shares held in the name of Chelsea Trust Company Limited. Jonathan White, Joerg Fischer and Steven Meiklejohn exercise the shared voting power with respect to the shares held in the name of Crestflower Corporation. Jonathan White, Joerg Fischer, John Crellin and Steven Meiklejohn are the directors of Ginola Limited and exercise the shared voting power with respect to the shares held in the name of Ginola Limited.

(3) This figure represents (1) 276,084 shares of common stock owned by Rainbow Gate Corporation; (ii) warrants to purchase 737,620 shares of common stock; and (iii) 937,333 shares of common stock underlying convertible preferred shares. Mortimer D.A. Sackler exercises the sole voting power with respect to the shares held in the name of Rainbow Gate Corporation but disclaims beneficial ownership of such shares.

(4) This figure represents shares owned by Ms. Jones and Gary Jones who are married to each other, including (i) 395,268 shares owned by Gary Jones and 158,792 shares owned by Ms. Jones; and (ii) 54,200 shares of common stock issuable upon exercise of stock options held by Ms. Jones.

(5) This figure represents 22,981 shares of common stock owned by Mr. Cronson, 199,583 shares of common stock underlying warrants, 120,800 shares of common stock underlying options, and 266,667 shares of common stock underlying convertible preferred shares held directly and indirectly by Paul Cronson. This includes (i) 12,097 shares of common stock held indirectly by a family member of Paul Cronson; and (ii) 3,783 shares of common stock, 186,666 shares of common stock underlying warrants and 266,667 shares of common stock underlying convertible preferred shares held indirectly by Navacorp III, LLC. Mr. Cronson exercises the sole voting power with respect to the shares held in the name of Navacorp III, LLC.

(6) This figure represents shares underlying options.

(7) This figure represents shares underlying options.

(8) This figure represents shares underlying options.

(9) This figure represents shares underlying options.

(10) This figure represents shares underlying options.

(11) This figure represents shares underlying options.

(12) This figure represents shares underlying options.

(13) This figure represents: (i) 577,041 shares; (ii) warrants held to purchase 199,583 shares; (iii) 266,667 shares of common stock underlying convertible preferred shares; and (iv) 1,609,771 shares of common stock issuable upon exercise of stock options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Director Independence

Board of Directors has determined that Messrs. Thomas Paulsen, Claude Charles, Jacob Goldman, Irwin Engelman, and Stephen Seay are each independent directors as of December 31, 2009. The Board of Directors has established a compensation committee which is currently comprised of Thomas Paulsen, Jacob Goldman, Claude Charles and Stephen Seay each of whom is independent as of December 31, 2009. The Board of Directors has established a corporate governance and nominating committee, which is comprised of Thomas Paulsen, Claude Charles and Jacob Goldman, each of whom is independent as of December 31, 2009. The Board of Directors has a separately designated audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, which is currently comprised of Claude Charles, Irwin Engelman, and Stephen Seay. The members of the Audit Committee are independent as of December 31, 2009.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Eisner LLP has served as eMagin's independent auditors for the years ended December 31, 2009 and 2008. For the year ended December 31, 2009, the fees for audit services totaled approximately $434 thousand which included approximately $355 thousand associated with the annual audit and review of the Company's quarterly reports on Form 10-Q and approximately $79 thousand associated with the Company's statutory and regulatory filings. For the year ended December 31, 2008, the fees for audit services totaled approximately $361 thousand which included approximately $251 thousand associated with the annual audit and review of the Company's quarterly reports on Form 10-Q and approximately $110 thousand associated with the Company's statutory and regulatory filings.

The Audit Committee pre-approves all audit and non-audit services performed by the Company's auditor and the fees to be paid in connection with such services in order to assure that the provision of such services does not impair the auditor's independence.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Schedules

1. Financial Statements

The following consolidated financial statements are filed as part of this report under Item 8 of Part II "Financial Statements and Supplementary Data.:

A. Consolidated Balance Sheets at December 31, 2009 (Restated) and 2008.
B. Consolidated Statements of Operations for the Years Ended December 31, 2009 (Restated), 2008, and 2007.
C. Consolidated Statements of Changes in Shareholders' Equity (Capital Deficit) for the Years Ended December 31, 2009 (Restated), 2008, and 2007.
D. Consolidated Statements of Cash Flows for the Years Ended December 31, 2009 (Restated), 2008, and 2007.

2. Financial Statement Schedules

The following financial statement schedule is filed as part of this report:

A. Schedule II – Valuation and Qualifying Accounts

Financial statement schedules not included herein have been omitted because they are either not required, not applicable, or the information is otherwise included herein.

(b) Exhibits

The exhibits listed in the accompanying Index to Exhibits on pages 75 to 79 are filed or incorporated by reference as part of this Annual Report on Form 10-K /A.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 7 th day of October, 2011.

eMAGIN CORPORATION

By: /s/ Andrew G. Sculley
Andrew G. Sculley
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on October 7, 2011 , on behalf of the registrant and in the capacities Indicated.

Signature	Title
/s/ Andrew G. Sculley Andrew G. Sculley	President and Chief Executive Officer, Director (Principal Executive Officer)
/s/ Paul Campbell Paul Campbell	Chief Financial Officer (Chief Accounting Officer and Principal Financial Officer)
Jill J. Wittels	Chairman of the Board, Director
/s/ Claude Charles Claude Charles	Director
/s/ Paul Cronson Paul Cronson	Director
/s/ Irwin Engelman Irwin Engelman	Director
/s/ Dr. Leslie Polgar Dr. Leslie Polgar	Director
/s/ Brig. Gen. Stephen Seay Brig. Gen. Stephen Seay	Director

eMAGIN CORPORATION
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Allowance for doubtful accounts

Year Ended	Beginning Balance	Charged to Expenses (In thousands)	Amounts Written Off	Ending Balance
December 31, 2009	$ (857)	$ 105	$ 378	$ (584)
December 31, 2008	$ (358)	$ 509	$ 10	$ (857)
December 31, 2007	$ (443)	$ —	$ 85	$ (358)

eMAGIN CORPORATION
INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger between Fashion Dynamics Corp., FED Capital Acquisition Corporation and FED Corporation dated March 13, 2000 (incorporated by reference to exhibit 2.1 to the Registrant's Current Report on Form 8-K/A filed on March 17, 2000).
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to exhibit 99.2 to the Registrant's Definitive Proxy Statement filed on June 14, 2001).
3.2	Amended Articles of Incorporation (incorporated by reference to exhibit A to the Registrant's Definitive Proxy Statement filed on June 13, 2003).
3.3	Bylaws of the Registrant (incorporated by reference to exhibit 99.3 to the Registrant's Definitive Proxy Statement filed on June 14, 2001).
3.4	Certificate of Designations of Series B Convertible Preferred Stock (incorporated by reference to exhibit 4.2 of the Registrant’s current report on Form 8-K filed on December 23, 2008).
4.1	Form of Warrant dated as of April 25, 2003 (incorporated by reference to exhibit 4.3 to the Registrant's Current Report on Form 8-K filed on April 28, 2003).
4.2	Form of Series A Common Stock Purchase Warrant dated as of January 9, 2004 (incorporated by reference to exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on January 9, 2004).
4.3	Form of Series B Common Stock Purchase Warrant dated as of January 9, 2004 (incorporated by reference to exhibit 4.2 to the Registrant’s Current Report on Form 8-K filed on January 9, 2004).
4.4	Form of Series C Common Stock Purchase Warrant dated as of January 9, 2004 (incorporated by reference to exhibit 4.3 to the Registrant's Current Report on Form 8-K filed on January 9, 2004).
4.5	Form of Series D Warrant (incorporated by reference to exhibit 4.1 to the Registrant's current report on Form 8-K filed on March 4, 2004).
4.6	Form of Series E Warrant (incorporated by reference to exhibit 4.2 to the Registrant's current report on Form 8-K filed on March 4, 2004).
4.7	Form of Series F Warrant (incorporated by reference to exhibit 4.1 to the Registrant's current report on Form 8-K filed on October 26, 2004).
4.8	Form of Common Stock Purchase Warrant (incorporated by reference to exhibit 10.3 to the Registrant’s current report on Form 8-K filed October 21, 2005).
4.9	Form of Common Stock Purchase Warrant (incorporated by reference to exhibit 4.1 to the Registrant's current report on Form 8-K filed on August 26, 2008).
4.10	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 to the Registrant’s current report on Form 8-K filed on December 23, 2008).
10.1	2000 Stock Option Plan (incorporated by reference to Annex A to exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on March 14, 2000).*
10.2	Form of Agreement for Stock Option Grant pursuant to 2003 Stock Option Plan (incorporated by reference to exhibit 99.2 to the Registrant's Registration Statement on Form S-8 filed on March 14, 2000).*
10.3	Nonexclusive Field of Use License Agreement relating to OLED Technology for miniature, high resolution displays between the Eastman Kodak Company and FED

	Corporation dated March 29, 1999 (incorporated by reference to exhibit 10.6 to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2000 filed on April 30, 2001).
10.4	Amendment Number 1 to the Nonexclusive Field of Use License Agreement relating to the LED Technology for miniature, high resolution displays between the Eastman Kodak Company and FED Corporation dated March 16, 2000 (incorporated by reference to exhibit 10.7 to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2000 filed on April 30, 2001).
10.5	Lease between International Business Machines Corporation and FED Corporation dated May 28, 1999 (incorporated by reference to exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001).

10.6	Amendment Number 1 to the Lease between International Business Machines Corporation and FED Corporation dated July 9, 1999 (incorporated by reference to exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001).
10.7	Amendment Number 2 to the Lease between International Business Machines Corporation and FED Corporation dated January 29, 001 (incorporated by reference to exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001).
10.8	Amendment Number 3 to Lease between International Business Machines Corporation and FED Corporation dated May 28, 2002 (incorporated by reference to the Company's Form S-1A as filed November 12, 2008).
10.9	Amendment Number 4 to Lease between International Business Machines Corporation and FED Corporation dated December 14, 2004 (incorporated by reference to the Registrant's Current Report on Form 8-K filed on December 20, 2004).
10.10	Securities Purchase Agreement dated as of April 25, 2003 by and among eMagin and the investors identified on the signature pages thereto, filed April 28, 2003, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.11	Registration Rights Agreement dated as of April 25, 2003 by and among eMagin and certain initial investors identified on the signature pages thereto (incorporated by reference to exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 28, 2003).
10.12	Securities Purchase Agreement dated as of January 9, 2004 by and among eMagin and the investors identified on the signature pages thereto (incorporated by reference to exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 9, 2004).
10.13	Registration Rights Agreement dated as of January 9, 2004 by and among eMagin and certain initial investors identified on the signature pages thereto (incorporated by reference to exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 9, 2004).
10.14	Master Amendment Agreement dated as of February 17, 2004 by and among eMagin and the investors identified on the signature pages thereto (incorporated by reference to exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 4, 2004).
10.15	Registration Rights Agreement dated as of February 17, 2004 by and among eMagin and certain initial investors identified on the signature pages thereto (incorporated by reference to exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 4, 2004).
10.16	Letter Agreement amending the Master Amendment Agreement dated as of March 1, 2004 by and among eMagin and the parties to the Master Amendment Agreement (incorporated by reference to exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on March 4, 2004).
10.17	Lease between International Business Machines Corporation and FED Corporation dated May 28, 1999, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 (incorporated by reference to the Form 10-K filed on March 30, 2001).
10.18	Amendment Number 2 to the Lease between International Business Machines Corporation and FED Corporation dated January 29, 2001, as filed in the

	Registrant's Form 10-K/A for the year ended December 31, 2000 (incorporated by reference to the Form 10-K filed on March 30, 2001).
10.19	Secured Note Purchase Agreement entered into as of November 27, 2001, by and among eMagin Corporation and certain investors named therein, as filed in the Registrant's Form 8-K dated December 18, 2001(incorporated by reference to Form *-K filed December 18, 2001).
10.20	2004 Non-Employee Compensation Plan, filed July 7, 2004, as filed in the Registrant’s Form S-8, incorporated herein by reference.*
10.21	Form of Letter Agreement by and among eMagin and the holders of the Class A, Class B and Class C common stock purchase warrants, filed August 9, 2004, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.22	Securities Purchase Agreement dated as of October 21, 2004 by and among eMagin and the purchasers listed on the signature pages thereto, filed October 26, 2004, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.23	Placement Agency Agreement dated as of October 21, 2004 by and among eMagin and W.R. Hambrecht & Co., LLC, filed October 26, 2004, as filed in the Registrant's Form 8-K incorporated herein by reference.

10.24	Agreement, dated as of June 29, 2004, by and between eMagin and Larkspur Capital Corporation, filed October 26, 2004, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.25	Sublease Agreement dated as of July 14, 2005 by and between eMagin and Cap Gemini U.S., LLC, filed August 2, 2005, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.26	Amended and Restated 2003 Stock Option Plan, filed September 1, 2005, as filed in the Registrant's Definitive Proxy Statement, incorporated herein by reference.*
10.27	Amended and Restated 2004 Non-Employee Compensation Plan, filed September 1, 2005, as filed in the Registrant's Definitive Proxy Statement, incorporated herein by reference.*
10.28	2005 Employee Stock Purchase Plan, filed September 1, 2005, as filed in the Registrant's Definitive Proxy Statement, incorporated herein by reference.*
10.29	Securities Purchase Agreement dated as of October 20, 2005, by and among eMagin and the purchasers listed on the signature pages thereto, filed October 31, 2005, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.30	Registration Rights Agreement dated as of October 20, 2005, by and among eMagin and the purchasers listed on the signature pages thereto, filed October 31, 2005, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.31	Employment Agreement effective as of January 1, 2006 by and between eMagin and Gary Jones, filed January 27, 2006, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.32	Employment Agreement effective as of January 1, 2006 by and between eMagin and Susan Jones, filed January 27, 2006, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.33	Amendment to Employment Agreement as of April 17, 2006 by and between eMagin and Gary Jones.
10.34	Amendment to Employment Agreement as of April 17, 2006 by and between eMagin and Susan Jones.
10.35	Form of Note Purchase Agreement dated July 21, 2006, by and among the Company and the investors named on the signature pages thereto 2006 (incorporated by reference to the Company's Form S-1A as filed November 12, 2008).
10.36	Form of 6% Senior Secured Convertible Note Due 2007-2008 of the Company dated July 21, 2006, filed July 25, 2006, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.37	Form of Common Stock Purchase Warrant of the Company dated July 21, 2006, filed July 25, 2006, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.38	Pledge and Security Agreement dated as of July 21, 2006 by and between the Company and Alexandra Global Master Fund Ltd., as collateral agent, filed July 25, 2006, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.39	Patent and Trademark Security Agreement dated as of July 21, 2006 by and between the Company and Alexandra Global Master Fund Ltd., as collateral agent, filed July 25, 2006, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.40	Lockbox Agreement dated as of July 21, 2006 by and between the Company and Alexandra Global Master Fund Ltd., as collateral agent, filed July 25, 2006, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.41	2004 Amended and Restated Non-Employee Compensation Plan, filed September 21, 2006, as filed in the Registrant's Definitive Proxy Statement incorporated herein by

	reference. *
10.42	Executive Separation and Consulting Agreement dated as of January 11, 2007 by and between eMagin Corporation and Gary W. Jones, filed January 19, 2007, as filed in the Registrant's Form 8-K/A incorporated herein by reference.

10.43	Letter Agreement dated as of February 12, 2007 by and between eMagin Corporation and Dr. K.C. Park, filed February 16, 2007, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.44	Allonge to the 6% Senior Secured Convertible Notes Due 2007-2008 of eMagin Corporation dated as of March 9, 2007, filed March 13, 2007, as filed in the Registrant's Form 8-K incorporated herein by reference.
10.45	First Amendment to Note Purchase Agreement as of March 28, 2007 by and between eMagin Corporation and Stillwater LLC, as filed in the Registrant's Form 8-K dated April 25, 2007 incorporated herein by reference.
10.46	Note Purchase Agreement as of April 9, 2007 by and between eMagin Corporation and Stillwater LLC, as filed in the Registrant's Form 8-K dated April 25, 2007 (incorporated by reference to the Company’s Form S-1A as filed November 12, 2008).
10.47	Amendment Agreement, dated as of July 23, 2007, incorporated by reference to the Company’s Form 8-K as filed on July 25, 2007.
10.48	Form of Amended and Restated 8% Senior Secured Convertible Note due 2008, incorporated by reference to the Company’s Form 8-K as filed on July 25, 2007.
10.49	Form of Amended and Restated Common Stock Purchase Warrant, incorporated by reference to the Company’s Form 8-K as filed on July 25, 2007.
10.50	Form of Amendment No. 1 to Patent and Security Agreement, , filed July 25, 2007, incorporated by reference to the Company’s Form 8-K as filed on July 25, 2007.
10.51	Form of Amendment No. 1 to Pledge and Security Agreement, filed July 25, 2007, incorporated by reference to the Company’s Form 8-K as filed on July 25, 2007.
10.52	Form of Lockbox Agreement, filed July 25, 2007, incorporated by reference to the Company’s Form 8-K as filed on July 25, 2007.
10.53	6% Senior Secured Convertible Note, dated April 9, 2007, by and between the Company and Stillwater LLC, incorporated by reference to the Company’s Form 8-K as filed on April 26, 2007.
10.54	Common Stock Purchase Warrant, dated April 9, 2007, by and between the Company and Stillwater LLC, incorporated by reference to the Company’s Form 8-K as filed on April 26, 2007.
10.55	Employment Agreement between the Company and Tatum, LLC, dated December 26, 2007, incorporated by reference to the Company’s Form 8-K as filed on January 3, 2008.
10.56	Form of Common Stock Purchase Warrant, incorporated by reference to the Company’s Form 8-K/A as filed on February 8, 2008.
10.57	Amendment No. 1 to Loan and Security Agreement, dated as of January 30, 2008, to the Loan and Security Agreement, dated August 7, 2007, incorporated by reference to the Company’s Form 8-K/A as filed February 8, 2008.
10.58	Warrant Issuance Agreement, dated January 30, 2008, incorporated by reference to the Company’s Form 8-K/A as filed February 8, 2008.
10.59	Form of Note Purchase Agreement dated July 21, 2006, by and between the Company and Stillwater LLC, (incorporated by reference to the Company’s Form S-1A as filed November 12, 2008).
10.60	Form of Common Stock Purchase Warrant, incorporated by reference to the Company’s Form 8-K, as filed on March 31, 2008.
10.61	Amendment No. 2 to Loan and Security Agreement, dated as of March 25, 2008 to the Loan and Security Agreement, dated

	August 7, 2007, as amended on January 30, 2008, incorporated by reference to the Company’s Form 8-K, as filed March 31, 2008.
10.62	Amendment No. 1 to Warrant Issuance Agreement, dated as of March 25, 2008, as amended on January 30, 2008, incorporated by reference to the Company’s Form 8-K, as filed March 31, 2008.
10.63	Form of Common Stock Purchase Warrant, incorporated by reference to the Company’s Form 8-K, as filed on April 4, 2008.
10.64	Securities Purchase Agreement, dated as of April 2, 2008, incorporated by reference to the Company’s Form 8-K, as filed April 4, 2008 (incorporated by reference to the Company’s Form S-1A as filed November 12, 2008).
10.65	Registration Rights Agreement, dated as of April 2, 2008, incorporated by reference to the Company’s Form 8-K, as filed April 4, 2008.
10.66	Agreement between the Company and Tatum, LLC, incorporated by reference to the Company’s Form 8-K, filed April 18, 2008
10.67	Employment Agreement effective as of June 1, 2008 by and between eMagin and Andrew Sculley, incorporated by reference to the Company’s Form 8-K/A as filed August 19, 2008.
10.68	Form of Amended and Restated Secured Revolving Loan Note (incorporated by reference to exhibit 4.2 to the Registrant's current report on Form 8-K filed on August 26, 2008).
10.69	Amendment No. 3 to Loan and Security Agreement, dated as of August 20, 2008 to the Loan and Security Agreement, dated August 7, 2007, incorporated by reference to the Company’s Form 8-K, as filed August 26, 2008.
10.70	Warrant Issuance Agreement No. 2, dated August 20, 2008, incorporated by reference to the Company’s Form 8-K as filed August 26, 2008.
10.71	Amended and restated Securities Issuance Agreement, dated as of August 20, 2008, incorporated by reference to the Company’s Form 8-K, as filed August 26, 2008.
10.72	Amendment, dated August 20, 2008, to Registration Rights Agreement, dated as of August 7, 2007, incorporated by reference to the Company’s Form 8-K, as filed August 26, 2008.
10.73	Loan and Security Agreement between Moriah Capital, L.P. and eMagin Corporation, dated as of August 7, 2007, (incorporated by reference to the Company’s Form S-1A as filed February 17, 2009).**
10.74	Securities Purchase Agreement, dated December 18, 2008 (incorporated by reference to exhibit 99.1 of the Registrant’s Current Report on Form 8-K filed on December 22, 2008).
10.75	Registration Rights Agreement, dated December 18, 2008 (incorporated by reference to exhibit 99.2 of the Registrant’s Current Report on Form 8-K filed on December 22, 2008).
10.76	Exchange Agreement, dated December 18, 2008 (incorporated by reference to exhibit 99.3 of the Registrant’s Current Report on Form 8-K filed on December 22, 2008).
10.77	

	Amendment No. 2 to the Employment Agreement between eMagin Corporation and Susan Jones.
10.78	Executive Employment Agreement, dated as of May 8, 2009, by and between the Company and Paul Campbell (incorporated by reference to exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on May 14, 2009).
10.79	Amendment Number 6 to the lease between International Business Machines Corporation and eMagin Corporation dated May 27, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-k filed on June 19, 2009).
10.80	Lease between Northup Building LLC and eMagin dated May 28, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-k filed on June 19, 2009).
10.81	Loan and Security Agreement between the Company and Access Business Finance, LLC(incorporated by reference to exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on September 11, 2009).
10.82	Temporary Extension of Amended and Restated Employment Agreement (incorporated by reference to the Registrant's Current Report on Form 8-K filed on March 10, 2010).
21.1	Subsidiaries of the Company (filed herewith).
23.1	Consent of Independent Registered Public Accounting Firm (filed herewith).
31.1	Certification by Chief Executive Officer pursuant to Sarbanes Oxley Section 302 (filed herewith).
31.2	Certification by Chief Financial Officer pursuant to Sarbanes Oxley Section 302 (filed herewith).
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).

* Each of the Exhibits noted by an asterisk is a management compensatory plan or arrangement.

** The confidential portions of the exhibit has been omitted and filed separately with the Securities and Exchange Commission