EMAGIN CORP
Form 10-Q/A
November 03, 2005

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

[X] Quarterly report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2005

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

Commission file number: 000-24757

eMAGIN CORPORATION

(Exact name of issuer as specified in its charter)

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

10500 N.E. 8th Street, Suite 1400
Bullevue, WA 98004
(Address of principal executive offices)

(425) 749-3600
(Issuer's telephone number)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act. Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 12, 2005 the Registrant had 83,036,601 shares of Common Stock outstanding.

EXPLANATORY NOTE: This Amended Quarterly Report on Form 10-Q/A is being filed for the purpose of amending the form on which the Company previously filed its Quarterly Report on Form 10-Q filed by the Company on August 15, 2005. This amended Quarterly Report is being filed for the sole purpose of modifying Exhibits 31.1 and 31.2 *Certification Pursuant to Sarbanes-Oxley Section 302* to complete the statement under 5(a) by including the term: *material weaknesses*. In all other material respects this Amended Quarterly Report on Form 10-QA is unchanged from the Quarterly Report on Form 10-Q filed by the Company on August 15, 2005.

EMAGIN CORPORATION

FORM 10-Q/A FOR THE THREE MONTHS

ENDED JUNE 30, 2005

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

eMAGIN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS		June 30, 2005		December 31, 2004
CURRENT ASSETS:		(Unaudited)		
Cash and cash equivalents	$	5,928	$	13,457
Trade receivables, net		487		536
Inventory		3,476		2,018
Prepaid expenses and other current assets		1,204		880
Total current assets		11,095		16,891
EQUIPMENT AND LEASEHOLD IMPROVEMENTS:		4,566		4,072
Less: Accumulated depreciation		(3,145)		(2,767)
Total equipment and leasehold improvements, net		1,421		1,305
Intangible assets, net		61		54
Other long-term assets		152		186
Total assets	$	12,729	$	18,436
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	933	$	822
Accrued payroll and benefits		787		674
Other accrued expenses		599		357
Advanced payments		33		64
Current portion of capitalized lease obligation		15		14
Other current liabilities		47		35
Total current liabilities		2,414		1,966
Capitalized lease obligations - long term		14		22
Total liabilities		2,428		1,988
SHAREHOLDERS' EQUITY:				
Common stock, par value $0.001 per share				
Shares authorized - 200,000,000				
Shares issued and outstanding - 82,956,300 and 79,638,817		83		80
Additional paid-in capital		167,216		165,399
Accumulated deficit		(156,998		(149,031)
Total shareholders' equity		10,301		16,448
Total liabilities and shareholders' equity	$	12,729	$	18,436
See notes to condensed financial statements.				

eMAGIN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands except per share amounts)
(Unaudited)

		Three Months Ended June 30, 2005		Three Months Ended June 30, 2004
REVENUE:				
Product revenue, net of returns	$	652	$	1,446
COST OF GOODS SOLD:				
Direct cost of goods sold		185		808
Production expenses		2,204		729
Total cost of goods sold		2,389		1,537
Gross loss		(1,737)		(91)
OPERATING EXPENSES:				
Research and development		1,130		76
Selling, general and administrative		1,760		1,240
Total costs and expenses, net		2,890		1,316
Interest income (expense), net		129		8
Net loss	$	(4,498)	$	(1,399)
Basic and diluted net loss per common share	$	(0.05)	$	(0.02)
Weighted average common shares outstanding		82,445		63,578

See notes to condensed financial statements.

		Six Months Ended June 30, 2005		Six Months Ended June 30, 2004
REVENUE:				
Product revenue, net of returns	$	1,343	$	1,986
COST OF GOODS SOLD:				
Direct cost of goods sold		362		1,016
Production expenses		3,984		1,884
Total cost of goods sold		4,346		2,900
Gross loss		(3,003)		(914)
OPERATING EXPENSES:				
Research and development		2,016		84
Selling, general and administrative		3,095		1,939
Total costs and expenses, net		5,111		2,023
Interest income (expense), net		147		(5,068)
Net loss	$	(7,967)	$	(8,005)
Basic and diluted net loss per common share	$	(0.10)	$	(0.14)
Weighted average common shares outstanding		81,955		57,759

See notes to condensed financial statements.

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eMAGIN CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Additional Paid-In	Accumulated	
	Shares	**$**	**Capital**	**Deficit**	**Total**
Balance, December 31, 2004	79,639	$ 80	$ 165,399	$ (149,031)	$ 16,448
Exercise of Options	8	-	6		6
Exercise of Warrants	3,013	3	1,555		1,558
Issuance of equity for service	296	-	256		256
Amortization of deferred compensation	-	-	-		-
Net Loss for Period				(7,967)	(7,967)
Balance, June 30, 2005	82,956	$ 83	$ 167,216	$ (156,998)	$ 10,301

See notes to condensed financial statements.

eMAGIN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (7,967)	$ (8,005)
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	378	301
Bad debt expense	(101)	34
Amortization of financing fees	-	8
Non-cash charge for stock based compensation	-	88
Non-cash interest related charges	-	129
Non-cash charge for services received	240	8
Non-cash financing expense	-	4,955
Changes in operating assets and liabilities:		
Trade receivables	150	12
Inventory	(1,458)	(410)
Prepaid expenses and other current assets	(389)	(462)
Other long-term assets	35	(32)
Advanced payment on contracts to be completed	(31)	(29)
Accounts payable, accrued expenses and accrued payroll	540	(123)
Other current liabilities	10	(17)
Net cash used in operating activities	(8,593)	(3,507)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases/Sales of equipment, net	(494)	(345)
Net cash used in investing activities	(494)	(345)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock, net of issuance costs	-	3,916
Proceeds from exercise of stock options and warrants	1,564	3,313
Payments of long term debt and capital leases	(7)	(31)
Net cash provided by financing activities	1,557	7,198
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,530)	3,456
CASH AND CASH EQUIVALENTS, beginning of period	13,457	1,054
CASH AND CASH EQUIVALENTS, end of period	$ 5,927	$ 4,400
Supplemental Cash Flow Disclosure:		
Conversion of debt to equity	$ -	$ 8,567
Payments of A/P through issuance of stock	$ -	$ 153
Stock issued for prepaid services	$ 257	$ 17
Cash payments of interest	$ 8	$ 5

See notes to condensed financial statements.

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eMAGIN CORPORATION

Selected Notes to Consolidated Financial Statements

Note 1 - ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying unaudited interim financial information reflects all adjustments, consisting of normal recurring accruals, necessary for a fair presentation. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the Securities and Exchange Commission. The Company believes that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited interim condensed consolidated financial statements are read in conjunction with the audited consolidated financial statements contained in the company's Annual Report on Form 10-KSB/A for the year ended December 31, 2004. The results of operations for the period ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock options. Under APB No. 25, when the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. The Company discloses information relating to the fair value of stock-based compensation awards in accordance with Statement of Financial Accounting Standards No.123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation. "The following table illustrates the effect on net loss and loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in the second quarter of 2005 and 2004, respectively: (1) average expected volatility of 69% and 99%, (2) average risk-free interest rates of 3.98% and 4.24%, and (3) expected lives of seven years.

The pro forma amounts that are disclosed in accordance with SFAS No. 123 reflect the portion of the estimated fair value of awards that were earned for the three and six months ended June 30, 2005 and 2004.

For the three and six months ended June 30, (In thousands except per share amounts)		Three Months 2005		Three Months 2004		Six Months 2005		Six Months 2004
Net loss applicable to common stockholders', as reported	$	(4,498)	$	(1,399)	$	(7,967)	$	(8,004)
Add: Stock based employee compensation expense included in reported net loss								
Deduct: Stock-based employee compensation expense determined under fair value method		(527)		(6,043)		(2,055)		(7,282)
Pro forma net loss	$	(5,025)	$	(7,442)	$	(10,022)	$	(15,286)
Net loss per share applicable to common stockholders':								

Basic and diluted, as reported	$	(0.05)	$	(0.02)	$	(0.10)	$	(0.14)
Basic and diluted, pro forma	$	(0.06)	$	(0.12)	$	(0.12)	$	(0.26)

In March of 2005 the Company granted 1,100,000 stock options to certain officers and employees of the Company. The exercise price of these options was equal to the market price of the stock on the date of grant. The options vest over five years unless there is a change in control or a dismissal without cause in which case the options would vest immediately.

Note 2 - NATURE OF BUSINESS

eMagin Corporation is a developer and manufacturer of optical systems and microdisplays for use in the electronics industry. eMagin also develops and markets microdisplay systems and optics technology for commercial, industrial and military applications.

Note 3 - REVENUE AND COST RECOGNITION

Revenue is recognized when products are shipped to customers, net of allowances for anticipated returns. The Company's revenue-earning activities generally involve delivering products and revenues are considered to be earned when the Company has completed the process by which it is entitled to such revenues. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, selling price is fixed or determinable and collection is reasonably assured.

The Company also earns revenues from certain of eMagin's R&D activities 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. Amounts can be billed on a bi-monthly basis.

Note 4 - RECEIVABLES

The majority of our commercial accounts receivable are due from Original Equipment Manufacturers ("OEM"s). Credit is extended based on an evaluation of a customers' 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. The Company determines the allowance by considering a number of factors, including the length of time trade accounts receivable are past due, eMagin's previous loss history, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectable, and payments subsequently received on such receivables are reported as income in the year the payment is received.

Receivables consisted of the following:

(In thousands)		**June 30, 2005**		**December 31, 2004**
Trade receivables	$	1,121	$	1,282
Contract receivables		36		25
Total		1,157		1,307
Less allowance for doubtful accounts		(670)		(771)
Net receivables	$	487	$	536

Note 5 - RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred.

Note 6 - NET LOSS PER COMMON SHARE

In accordance with SFAS No. 128, net loss per common share amounts ("basic EPS") was computed by dividing net loss by the weighted average number of common shares outstanding and excluding any potential dilution. Net loss per common share assuming dilution ("diluted EPS") was computed by reflecting potential dilution from the exercise of stock options and warrants. Common equivalent shares totaling 3,340,526 and 3,911,443 have been excluded from the computation of diluted EPS for the three and six months ended June 30, 2005, respectively. 34,799,366 has been excluded from the computation of diluted EPS for the three and six months ended June 30, 2004, because their effect would be antidilutive.

Note 7 - INVENTORIES

Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out method. The Company reviews the value of its inventory and reduces the inventory value to its net realizable value based upon current market prices and contracts for future sales. The components of inventories are as follows:

(In thousands)	June 30, 2005	December 31, 2004
Raw materials	$ 2,806	$ 1,420
Work in process	259	169
Finished goods	411	429
Total Inventory	$ 3,476	$ 2,018

Note 8 - DEBT

Debt consisted of capitalized leased obligation for equipment as follows:

(In thousands)	June 30, 2005	December 31, 2004
Current portion of capitalized lease obligations	$ 15	$ 14
Long-term capitalized lease obligations	14	22
Total debt	$ 29	$ 36

Note 9 - STOCKHOLDERS' EQUITY

The authorized common stock of the Company consists of 200,000,000 shares with a par value of $0.001 per share. In the three and six months ending June 30, 2005, the Company received $318,000 and $1,564,047, respectively, for the exercise of 600,000 and 3,021,359 warrants and options.

The Company also issued 284,124 and 296,124 shares of common stock, respectively, for the three and six months ended June 30, 2005 for the payment of $244,650 and $256,650 for services rendered and to be rendered in the future. As such, the Company recorded the fair value of the services rendered in selling, general and administrative expenses in the accompanying unaudited consolidated statement of operations for the three months ended June 30, 2005.

Note 10 - STOCK COMPENSATION

As of June 30, 2005, the Company has outstanding options to purchase 16,358,688 shares. The Company issued all outstanding options at or above fair market value, or has previously expensed those options repriced below fair market value.

Note 11 - COMMITMENTS AND CONTINGENCIES

[a] Royalty payments:

The Company, in accordance with a royalty agreement, with Eastman Kodak is obligated to make minimum annual royalty payments of $125,000 which commenced on January 1, 2001. Under this agreement, the Company must pay to the corporation a certain percentage of net sales of 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 last-to-expire issued patent.

In April 2005, the Company paid $125,000 for the minimum amount due for 2005. The amount was recorded in prepaid expenses and will be amortized as the Company records the royalty expense as defined in the agreement. Royalty expense was $42,124 and $64,887, respectively, for the three and six months ended June 30, 2005 as compared to $72,004 and $94,859, respectively, for the three and six months ended June 30, 2004.

[b] Contractual obligations:

The Company leases certain office facilities and office, lab and factory equipment under operating leases expiring through 2009. Certain leases provide for payments of monthly operating expenses. The approximate minimum lease payments for the remainder of 2005 are approximately $554,000. Subsequent to 2005 the obligations total approximately $5,053,000.

We currently lease space from IBM for approximately $74,000 per month that houses our own equipment for OLED microdisplay fabrication and for research and development plus additional space for assembly and administrative offices. In 2004 we entered into an amended lease agreement which extends the term of this lease to May 31, 2009.

In July 2005, we finalized a sub-lease agreement for approximately 18,961 square feet in Bellevue Washington. The Lease is effective as of June 1, 2005, expires on August 31, 2009 and will be used by the Company for general office purposes (including incidental light assembly of electronic equipment). The Company’s lease at its current Redmond location expires in August and will not be renewed.

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

Statement of Forward-Looking Information

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by the Company, or any other person, that such forward-looking statements will be achieved. The business and operations of the Company are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this release. We undertake no duty to update any of the forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on the forward-looking statements contained in this report.

Overview

We design and manufacture miniature 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, 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. Through inception, as of June 30, 2005, we have recognized an aggregate of approximately $8.0 million from sales of our products, and have a backlog of more than $28 million in products ordered for delivery through 2007. These products are being applied or considered for near-eye and headset applications in products such as entertainment and gaming headsets, handheld Internet and telecommunication appliances, viewfinders, and wearable computers to be manufactured by original equipment manufacturer (OEM) customers. In addition to marketing OLED-on-silicon microdisplays as components, we also offer microdisplays as an integrated package, which we call Microviewer that includes a compact lens for viewing the microdisplay and electronic interfaces to convert the signal from our customer's product into a viewable image on the microdisplay. Through our operations in Washington State we are also developing personal near-eye display systems and modules that incorporate our Microviewer.

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

Company History

From inception through January 1, 2003, we were a developmental stage company. We have transitioned to manufacturing our product and intend to significantly increase our marketing, sales, and research and development efforts, and expand our operating infrastructure. Most of our operating expenses are fixed in the near term. If we are unable to generate significant revenues, our net losses in any given period could be greater than expected.

CRITICAL ACCOUNTING POLICIES

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

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

Revenue Recognition

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

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

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates and assumptions relate to recording net revenue, collectibility of accounts receivable, useful lives and impairment of tangible and intangible assets, accruals, income taxes, inventory realization and other factors. Management has exercised reasonable judgment in deriving these estimates. Consequently, a change in conditions could affect these estimates.

Fair value of financial instruments

The Company's cash, cash equivalents, accounts receivable and accounts payable are stated at cost which appropriates fair value due to the short-term nature of these instruments.

Results of Operations

THREE AND SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO THREE AND SIX MONTHS ENDED JUNE 30, 2004

Revenues

Revenues for the three and six months ended June 30, 2005 were approximately $0.7 million and $1.3 million, respectively, as compared to $1.4 million and $2.0 million for the three and six months ended June 30, 2004, a decrease of 55% and 32%, respectively. The decrease in revenue resulted from a shortage of displays available for sale as a result of our manufacturing plant conversions and equipment maintenance issues during the first half of 2005. With production capacity now increased and our new Z800 product launched we anticipate that revenue will increase over the next several quarters.

Cost of Goods Sold

Cost of goods sold includes direct and indirect costs associated with production. Cost of goods sold for the three and six months ended June 30, 2005 were approximately $2.4 million and $4.3 million, respectively, as compared to $1.5 million and $2.9 million for the three and six months ended June 30, 2004, an increase of $0.9 million and $1.4 million, respectively. Gross loss for the three and six months ended June 30, 2005 were ($1.7) million and ($3) million, respectively, as compared to ($0.1) million and ($0.9), respectively, for the three and six months ended June 30, 2004. This translates to a Gross Margin of (266%) and (224%) for the three and six months ended June 30, 2005 as compared to a Gross Margin of (6%) and (46%), for the three and six months ended June 30, 2004, respectively.

The increased costs of goods sold is directly attributable to our preparation for increased production volumes. Expenses for the three and six months ended June 30, 2005 reflect two full shifts of production and training for a partial third shift. Initial prototyping costs for the new Z800 3DVisor were also recorded during the first half of 2005. Expenses for the three and six months ended June 30, 2004 represented staff required to run a single shift at relatively low throughput. During the first two quarters of 2005 we redesigned our operations to support what we believe will be increased throughput in excess of 10 times year ago levels. While these changes were being implemented, the majority of overhead and staff cost was directly expensed to cost of goods sold.

Operating Expenses

Research and Development. Research and development expenses included salaries, development materials and other costs specifically allocated to the development of new products. Gross research and development expenses for the three and six months ended June 30, 2005 were $1.1 million and $2 million, respectively, as compared to $76 thousand and $84 thousand, respectively, for the three and six months ended June 30, 2004. During the second half of 2004 we initiated two new design projects, the SXGA and the SVGA shrink, that are projected to yield future microdisplay products. More detailed information on these projects can be found in our annual report, on Form 10KSB/A filed May 2, 2005. To accommodate these efforts our costs for the three and six months ended June 30, 2005 reflect expanded staff size and outsourced design services as compared to the three and six months ended June 30, 2004. We expect R&D expenses to remain fairly constant for the next four quarters as these projects are completed and then to decline slightly through the end of 2006.

Selling, General and Administrative. Selling, general and administrative expenses consist principally of salaries and fees for professional services, legal fees incurred in connection with patent filings and related matters, as well as other marketing and administrative expenses. Selling, general and administrative expenses, for the three and six months ended June 30, 2005 were $1.8 million and $3.1 million, respectively, as compared to $1.2 million and $1.9 million, respectively, for the three and six months ended June 30, 2004. The $0.6 million and $1.2 million increases were primarily due to an increase in staff and increased marketing expenses related to our new product launches and trade show participation. We expect Sales, general and administrative expenses to remain relatively constant or to increase slightly or to decline slightly over the next several quarters.

Interest Income (expense). Interest income (expense) for the three and six months ending June 30, 2005 were $129 thousand and $147 thousand as compared to $8 thousand and ($5.1) million for the three and six months ended June 30, 2004. The ($5.1) million decrease in interest expense for the three months ended June 30, 2005 was attributable to three factors recorded in 2004; (1) $3.18 million of non-cash charges related to the value of the warrants issued to induce the holders of the $7.825 million in Notes to agree to an early conversion of the Notes into common stock, (2) $1,598,325 in non-cash charges related to the remaining unamortized debt discount and beneficial conversion feature associated with the aforementioned Notes, and (3) $74,637 in non-cash charges related to the write-off of the remaining unamortized deferred financing costs.

Liquidity and Capital Resources

Current Financial Position

We have approximately $2.0 million in liabilities and $6.2 million in contractual obligations for a total of $8.2 million as of June 30, 2005. The contractual obligations, along with the dates on which such payments are due, are described below:

(In thousands)		One Year	More Than
Contractual Obligations	Total	or Less	One Year
Operating leases	$ 5,569	$ 1,052	$ 4,517
Royalties	625	125	500
Capital leases	38	18	20
Total contractual obligations	$ 6,232	$ 1,195	$ 5,037

At June 30, 2005 our working capital was $8.7 million and our cash balance was $5.9 million. We currently anticipate that we will experience a material increase in sales if our new products meet with commercial success. As a result we anticipate that working capital to facilitate higher accounts receivable and inventories will be a principal use of cash through the end of 2005 and in 2006. We anticipate that our operating expenses will remain flat to slightly up over the next several quarters and that they will also be one of the principal uses of our cash. We expect that that these cash requirements over the next 12 months will be higher than $5.9 million and therefore will be met by a combination of cash on hand, debt, additional financing, exercising of outstanding options and warrants, and revenues generated by operations, though there is no guarantee that these sources of capital will be available or sufficient. If they are not we will have to materially reduce our expenses which would likely have a negative impact on executing our business plans and achieving our projected revenue growth.

We have received purchase agreements for approximately $28 million for our products to be delivered now through 2007. Scheduled deliveries against our purchase agreements and other customer requirements are subject to change depending on a number of factors including, our production capacity, our customers' production timing of related systems into which they are integrating our products and their other supplier schedules, changes in the expected procurement periods for military programs and the requirements of the individual agreements and contracts that we have with our customers.

Our longer term cash requirements depend on numerous factors, including completion of our product development activities, ability to continue to commercialize our products, timely market acceptance of our products and our customers' products, and other factors. We expect to carefully devote capital resources to continue these efforts.

EFFECT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued FAS No. 151, "An amendment of ARB No. 43, Chapter 4" This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal". In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The statement is effective for fiscal years beginning after June 15, 2005 with early adoption permitted. eMagin is currently evaluating the requirements and impact of FAS No. 151, but at this point does not believe the adoption will have a material impact on its financial position, cash flows or results of operations.

FASB Statement 123R (Revision 2004), "Share-Based Payment", was issued in December 2004 and is effective for reporting periods beginning after December 31, 2005. The new statement requires all share-based payments to employees to be recognized in the financial statements based on their fair values. The Company currently accounts for its share-based payments to employees under the intrinsic value method of accounting set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issues to Employees". Additionally, the Company complies with the stock-based employer compensation disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123". The Company will adopt the new statement in its financial statements for the quarter ending March 31, 2006.

Factors Which May Affect Future Results

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

Risks Related To Our Financial Results

WE HAVE A HISTORY OF LOSSES SINCE OUR INCEPTION AND MAY INCUR LOSSES FOR THE FORESEEABLE FUTURE.

Accumulated losses excluding non-cash transactions as of June 30, 2005, were $55 million and acquisition related non-cash transactions were $102 million, which resulted in an accumulated deficit of $157 million, the majority of which was related to the March 2000 merger and the subsequent write-down of our goodwill. The non-cash losses were dominated by the amortization and write-down of goodwill and purchased intangibles and write-down of acquired in process research and development related to the March 2000 acquisition, and also included some non-cash stock-based compensation. We have not yet achieved profitability and we can give no assurances that we will achieve profitability within the foreseeable future as we fund operating and capital expenditures in areas such as establishment and expansion of markets, sales and marketing, operating equipment and research and development. We cannot assure investors that we will ever achieve or sustain profitability or that our operating losses will not increase in the future.

WE MAY NOT BE ABLE TO EXECUTE OUR BUSINESS PLAN AND MAY NOT GENERATE CASH FROM OPERATIONS

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 would be required 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. To the extent that operating expenses increase or we need additional funds to make acquisitions, develop new technologies or acquire strategic assets, the need for additional funding may be accelerated and there can be no assurances that any such additional funding can be obtained on terms acceptable to us, if at all. If we were not able to generate sufficient capital, either from operations or through additional debt or equity financing, to fund our current operations, we would be forced to significantly reduce or delay our plans for continued research and development and expansion. This could significantly reduce the value of our securities.

RISKS RELATED TO MANUFACTURING

THE MANUFACTURE OF OLED-ON-SILICON IS NEW AND OLED MICRODISPLAYS HAVE NOT BEEN PRODUCED IN SIGNIFICANT QUANTITIES.

If we are unable to produce our products in sufficient quantity, we will be unable to meet our customer’s time requirements and would have difficulties in attracting new customers. In addition, we cannot assure you that once we commence volume production we will attain yields at high throughput that will result in profitable gross margins or that we will not experience manufacturing problems which could result in delays in delivery of orders or product introductions.

WE ARE DEPENDENT ON A SINGLE MANUFACTURING LINE.

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

WE EXPECT TO DEPEND ON SEMICONDUCTOR CONTRACT MANUFACTURERS TO SUPPLY OUR SILICON INTEGRATED CIRCUITS AND OTHER SUPPLIERS OF KEY COMPONENTS, MATERIALS AND SERVICES.

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

RISKS RELATED TO OUR INTELLECTUAL PROPERTY

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

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

WE MAY NOT BE SUCCESSFUL IN PROTECTING OUR INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS.

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

RISKS RELATED TO THE MICRODISPLAY INDUSTRY

THE COMMERCIAL SUCCESS OF THE MICRODISPLAY INDUSTRY DEPENDS ON THE WIDESPREAD MARKET ACCEPTANCE OF MICRODISPLAY SYSTEMS PRODUCTS.

The market for microdisplays is emerging. Our success will depend on consumer acceptance of microdisplays as well as the success of the commercialization of the microdisplay market. As an OEM supplier, our customer's products must also be well accepted. At present, it is difficult to assess or predict with any assurance the potential size, timing and viability of market opportunities for our technology in this market. The viewfinder microdisplay market sector is well established with entrenched competitors with whom we must compete.

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;

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- our ability to address the needs of our customers and the quality of our customer services;
- the quality, performance, reliability, features, ease of use and pricing of our products;
- successful expansion of our manufacturing capabilities;
- our efficiency of production, and ability to manufacture and ship products on time;
- the rate at which original equipment manufacturing customers incorporate our product solutions into their own products;
- the market acceptance of our customers' products; and
- product or technology introductions by our competitors.

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

THE DISPLAY INDUSTRY IS CYCLICAL.

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

COMPETING PRODUCTS MAY GET TO MARKET SOONER THAN OURS.

Our competitors are investing substantial resources in the development and manufacture of microdisplay systems using alternative technologies such as reflective liquid crystal displays (LCDs), LCD-on-Silicon ("LCOS") microdisplays, active matrix electroluminescence and scanning image systems, and transmissive active matrix LCDs.

OUR COMPETITORS HAVE MANY ADVANTAGES OVER US.

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

OUR PRODUCTS ARE SUBJECT TO LENGTHY OEM DEVELOPMENT PERIODS.

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

OUR PRODUCTS WILL LIKELY EXPERIENCE RAPIDLY DECLINING UNIT PRICES.

In the markets in which we expect to compete, prices of established products tend to decline significantly over time. In order to maintain our profit margins over the long term, we anticipate 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 time, there can be no assurance that these cost reduction plans will be successful. We may also attempt to offset the anticipated decrease in our average selling price by introducing new products, increasing our sales volumes or adjusting our product mix. If we fail to do so, our results of operations would be materially and adversely affected.

RISKS RELATED TO 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 retaining or attracting new personnel may have a materially adverse affect on our business and our operating results. In addition, difficulties in hiring and retaining technical personnel could delay the implementation of our business plan.

OUR SUCCESS DEPENDS IN A LARGE PART ON THE CONTINUING SERVICE OF KEY PERSONNEL.

Changes in management could have an adverse effect on our business. We are dependent upon the active participation of several key management personnel, including Gary W. Jones, our chief executive officer. We 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 BUSINESS DEPENDS ON NEW PRODUCTS AND TECHNOLOGIES.

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

WE GENERALLY DO NOT HAVE LONG-TERM CONTRACTS WITH OUR CUSTOMERS.

Our business is operated on the basis of short-term purchase orders and we cannot guarantee that we will be able to obtain long-term contracts for some time. Our current purchase agreements can be cancelled or revised without penalty, depending on the circumstances. In the absence of a backlog of orders that can only be canceled with penalty, we plan production on the basis of internally generated forecasts of demand, which makes it difficult to accurately forecast revenues. If we fail to accurately forecast operating results, our business may suffer and the value of your investment in the Company may decline.

OUR BUSINESS STRATEGY MAY FAIL IF WE CANNOT CONTINUE TO FORM STRATEGIC RELATIONSHIPS WITH COMPANIES THAT MANUFACTURE AND USE PRODUCTS THAT COULD INCORPORATE OUR OLED-ON-SILICON TECHNOLOGY.

Our prospects will be significantly affected by our ability to develop strategic alliances with OEMs for incorporation of our OLED-on-silicon technology into their products. While we intend to continue to establish strategic relationships with manufacturers of electronic consumer products, personal computers, chipmakers, lens makers, equipment makers, material suppliers and/or systems assemblers, there is no assurance that we will be able to continue to establish and maintain strategic relationships on commercially acceptable terms, or that the alliances we do enter in to will realize their objectives. Failure to do so would have a material adverse effect on our business.

OUR BUSINESS DEPENDS TO SOME EXTENT ON INTERNATIONAL TRANSACTIONS.

We purchase needed materials from companies located abroad and may be adversely affected by political and currency risk, as well as the additional costs of doing business with a foreign entity. Some customers in other countries have longer receivable periods or warranty periods. In addition, many of the OEMs that are the most likely long-term purchasers of our microdisplays are located abroad exposing us to additional political and currency risk. We may find it necessary to locate manufacturing facilities abroad to be closer to our customers which could expose us to additional 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.

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WE HAVE A STAGGERED BOARD OF DIRECTORS AND OTHER ANTI-TAKEOVER PROVISIONS, WHICH COULD INHIBIT POTENTIAL INVESTORS OR DELAY OR PREVENT A CHANGE OF CONTROL THAT MAY FAVOR YOU.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We did not have material exposure to market risk from derivatives or other financial instruments as of June 30, 2005, and we do not expect any significant effect on our results of operations from interest rate and foreign currency fluctuations.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

(b) Changes in internal controls. There was no change in our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, the outcome of such legal matters will not have a material adverse effect on the Company's results of operations or financial position.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company issued 505,000 options that have common shares underlying. The Company will realize no proceeds from the exercise of these options.

Item 3. Defaults Upon Senior Securities.

None

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits

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

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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.

EMAGIN CORPORATION

Date: November 2, 2005

By: /s/ Gary Jones

Gary Jones
CHIEF EXECUTIVE OFFICER, PRESIDENT

Date: November 2, 2005

By: /s/ John Atherly

John Atherly
CHIEF FINANCIAL OFFICER