

EMAGIN CORP
Form S-1
April 29, 2008

As filed with the Securities and Exchange Commission on April 29, 2008

Registration No. 333 -

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

eMagin Corporation
(Name of small business issuer in its charter)

Delaware
(State or other Jurisdiction of
Incorporation or Organization)

3679
(Primary Standard Industrial
Classification Code Number)

56-1764501
(I.R.S. Employer
Identification No.)

10500 N.E. 8 th Street, Suite 1400,
Bellevue, WA 98004
(425)-749-3600

(Address and telephone number of principal executive offices and principal place of business)

Admiral Thomas Paulsen, Interim Chief Executive Officer
eMagin Corporation
10500 N.E. 8 th Street, Suite 1400,
Bellevue, WA 98004
(425)-749-3600

(Name, address and telephone number of agent for service)

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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:
From time to time after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

(COVER CONTINUES ON FOLLOWING PAGE)

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

Large accelerated filer

Non-accelerated filer

Accelerated Filer

Smaller reporting
company

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price (1)	Amount of registration fee
Common Stock, \$0.001 par value per share	1,586,539	\$ 0.985	\$ 1,562,741	\$ 61.42
Common Stock, \$0.001 par value per share, issuable upon exercise of Warrants	793,273	\$ 0.985	\$ 781,374	\$ 30.71
Common Stock, \$0.001 par value per share, issuable upon exercise of Warrants	1,000,000	\$ 0.985	\$ 985,000	\$ 38.71
Total	3,379,812		\$ 3,329,115	\$ 130.84

- (1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) and Rule 457(g) under the Securities Act of 1933, using the average of the sale prices as reported on the OTCBB on April 28, 2008 which was \$0.985 per share.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED APRIL 29, 2008

eMagin Corporation

3,379,812 SHARES OF

COMMON STOCK

This prospectus relates to the resale by the selling stockholders of up to 3,379,812 shares of our common stock, consisting of up to 1,793,273 shares issuable upon the exercise of common stock purchase warrants and 1,586,539 shares of common stock. The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. We will pay the expenses of registering these shares.

Our common stock is listed on the Over-The-Counter Bulletin Board under the symbol "EMAN". The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on April 28, 2008, was \$0.985.

Investing in these securities involves significant risks. See "Risk Factors" beginning on page 8.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense. You should read this prospectus carefully before you invest.

The date of this prospectus is April __, 2008.

The information in this Prospectus is not complete and may be changed. This Prospectus is included in the Registration Statement that was filed by eMagin Corporation with the Securities and Exchange Commission. The selling stockholders may not sell these securities until the registration statement becomes effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the sale is not permitted.

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PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the “risk factors” section, the financial statements and the notes to the financial statements.

We design, develop, manufacture, and market virtual imaging products which utilize OLEDs, or organic light emitting diodes, OLED-on-silicon microdisplays and related information technology solutions. We 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, or OEM, customers to develop and market improved or new electronic products. We believe that virtual imaging will become an important way for increasingly mobile people to have quick access to high resolution data, and experience new more immersive forms of communications and entertainment.

Our first commercial product, the SVGA+ (Super Video Graphics Array of 800x600 picture elements plus 52 added columns of data) OLED microdisplay was initially offered for sampling in 2001, and our first SVGA-3D (Super Video Graphics Array plus built-in stereovision capability) OLED microdisplay was shipped in early 2002. 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 OEM customers for military, medical, industrial, and consumer applications. We market our products globally.

In 2006 we introduced our OLED-XL technology, which provides longer luminance half life and enhanced efficiency of eMagin's SVGA+ and SVGA-3D product lines. We are in the process of completing development of 2 additional OLED microdisplays, namely the SVGA 3DS (SVGA 3D shrink, a smaller format SVGA display with a new cell architecture with embedded features) and an SXGA (1280 x 1024 picture elements).

In January 2005 we announced the world's first personal display system to combine OLED technology with head-tracking and 3D stereovision, the Z800 3DVisor(tm), which was first shipped in mid-2005. This product was recognized as a Digital Living Class of 2005 Innovators, and received the Consumer Electronics Association's coveted 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. In February 2007 the Z800 3DVisor, as integrated in Chatten Associates' head-aimed remote viewer, was recognized as one of Advanced Imaging's Solutions of the Year.

We believe that our OLED-on-silicon microdisplays offer a number of advantages over current liquid crystal microdisplays, including greatly increased system level power efficiency, less weight and wider viewing angles. Using our active matrix OLED technology, many computer and video electronic system functions can be built directly into the OLED-on-silicon microdisplay, resulting in compact systems with expected lower overall system costs relative to alternative microdisplay technologies. We have developed our own technology to create high performance OLED-on-silicon microdisplays and related optical systems and we have licensed certain fundamental OLED and display technology from Eastman Kodak.

As the first to exploit OLED technology for microdisplays, and with the support of our partners and the development of our intellectual property, we believe that we enjoy a significant advantage in the commercialization of this display technology for virtual imaging. We believe we are the only company to sell full-color 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. FDC had no active business operations other than to acquire an interest in a business. On March 16, 2000, FDC acquired FED. The merged company changed its name to eMagin Corporation. Following the merger, the business conducted by eMagin is the business conducted by FED prior to the merger.

Our website is located at www.emagin.com and our e-commerce site is www.3dvisor.com . The contents of our website are not part of this Prospectus.

The Offering

Common stock offered by selling stockholders	Up to 3,379,812 shares, consisting of the following:
	· 1,586,539 shares of common stock;
	· up to 793,273 shares of common stock issuable upon the exercise of common stock purchase warrants at an exercise price of \$1.30 per share;
	· up to 1,000,000 shares of common stock issuable upon the exercise of common stock purchase warrants at an exercise price of \$1.50 per share;
Common Stock to be outstanding after the offering	19,298,772 shares*
Use of proceeds	We will not receive any proceeds from the sale of the common stock however, we will receive proceeds from the exercise of our warrants.
Over-The-Counter Bulletin Board Symbol	EMAN

*The information above regarding the common stock to be outstanding after the offering is based on 14,189,436 shares of the Company's common stock outstanding as of April 18, 2008, and includes 2,450,000 shares of Common Stock currently pending registration with the Securities and Exchange Commission.

Recent Developments

Amendment of Stillwater Note Purchase Agreement (the "Stillwater Note") - April 2007

As previously reported in the Form 8-K dated July 25, 2006, on July 21, 2006, eMagin Corporation (the "Company") entered into a Note Purchase Agreement (the "Stillwater Agreement") with Stillwater LLC ("Stillwater") which provides for the purchase and sale of a 6% senior secured convertible note in the principal amount of up to \$500,000 (the "Stillwater Note"), together with a warrant (the "Stillwater Warrant") to purchase 70% of the number of shares issuable upon conversion of the Stillwater Note, at the sole discretion of the Company by delivery of a notice to Stillwater on December 14, 2006. Interest payments from the Stillwater Note are to be made in cash, unless Stillwater elects to convert any portion of the principal of the Stillwater Note plus any accrued and unpaid interest for such principal amount.

As previously reported in the Form 8-K dated April 13, 2007, by way of amendment to the Stillwater Agreement, dated March 28, 2007 (the "Amendment"), the Company and Stillwater agreed to certain amendments to the Stillwater Agreement. Based upon the provisions of the Stillwater Agreement, Stillwater was bound to purchase the Stillwater

Note and the Stillwater Warrant so long as the conditions to closing as set forth in the Stillwater Agreement were satisfied by the Company. However, prior to Stillwater's obligation to purchase the Stillwater Note and Stillwater Warrant, the Company received notice from the American Stock Exchange ("AMEX") that it was no longer in compliance with their listing requirements, and the Company was subsequently de-listed in March of 2007. Since compliance with the AMEX listing requirements was a condition of closing in the Stillwater Agreement, Stillwater was no longer obligated to purchase the Stillwater Note and Stillwater Warrant. Therefore, among other things, pursuant to the Amendment, the parties agreed to a new conversion price for the Stillwater Note of \$0.35 per share, a new exercise price for the Stillwater Warrant of \$0.48 per share, a new closing date, and amended certain closing conditions, including the following: on the closing date, (i) trading in securities on the New York Stock Exchange, Inc., the AMEX, Nasdaq, the Nasdaq Capital Market, the Over-The-Counter Bulletin Board, the Pink Sheets, LLC or any similar organization shall not have been suspended or materially limited, (ii) a general moratorium on commercial banking activities in the State of New York shall not have been declared by either federal or state authorities, and (iii) the Company has obtained waivers from all the noteholders of the other notes or has executed an additional Allonge with the majority holders to amend Section 3.2 of the Note and other notes to provide that the Company maintain cash and cash equivalents balances of at least equal to \$200,000 from April 1, 2007 through and including May 15, 2007 and that subsequent to May 15, 2007 the Company maintain cash and cash equivalents balances of at least equal to \$600,000.

If all of the Stillwater Warrants are exercised for cash, the Company would receive \$480,000, which would be used for working capital and other corporate purposes. There cannot be any assurances that any of the Stillwater Warrants will be exercised. The closing for the sale of the Stillwater Note and Stillwater Warrant was completed on April 9, 2007 and the Company issued Stillwater the Stillwater Note in a 6% Senior Secured Convertible Note in the principal amount of \$500,000 and the Stillwater Warrant to purchase 1,000,000 shares of the Company's common stock at an exercise price of \$0.48 in accordance with the terms of the Stillwater Agreement and Amendment. Interest payments from the Stillwater Note are to be made in cash, unless Stillwater elects to convert any portion of the principal of the Stillwater Note plus any accrued and unpaid interest for such principal amount. The principal of the Stillwater Note was due in installments as follows:

Principal Amount	Due Date*
\$ 250,000	July 23, 2007
\$ 250,000	January 21, 2008

* If the due date falls on a non-business day, the payment date will be the next business day.

On July, 23 2007, Stillwater elected to convert \$252,166.50 of the Note representing \$250,000 of the principal amount of the Note due on July 23, 2007 and \$2,166.50 of accrued and unpaid interest into shares of common stock. Stillwater received 720,476 shares of the common stock at the conversion price of \$0.35.

Amendment Agreements - July 2007

As previously reported in the Form 8-K of the Company dated as of July 25, 2007, by way of Amendment Agreements dated July 23, 2007 (the "Amendment Agreements") between the Company and each of the holders of the Notes, including Stillwater (each a "Holder" and collectively, the "Holders"), the Company agreed to issue each Holder an amended and restated Note for the outstanding Notes (the "Amended Notes") in the principal amount equal to the principal amount outstanding as of July 23, 2007 and an amended restated Warrant (the "Amended Warrants"). The changes to the Amended Notes and Amended Warrants include the following:

- .. The maturity date for the Amended Notes (totaling after conversions an aggregate of \$6,020,000) was extended to December 21, 2008;
- .. Liquidated damages of 1% per month related to the Company's delisting from the American Stock Exchange will no longer accrue and the deferred interest balance of approximately \$230,000 has been forgiven;
- .. The Company no longer has to maintain a minimum cash or cash equivalents balances of \$600,000;
- .. The Amended Notes may not be prepaid without the consent of the Holders;
- .. As of July 23, 2007 the interest rate was raised from 6% per annum to 8% per annum;
- .. The Amended Notes are convertible into (i) 8,407,612 shares of the Company's common stock. The conversion price for the Amended Notes was revised from \$2.60 to \$0.75 per share, except for the Stillwater Note which remained \$0.35 per share for \$250,000 of principal (which represents the remaining portion of the original principal balance of \$500,000 after Stillwater's partial conversion);
- .. In addition to the right to convert the Amended Notes in the Company's common stock, up to \$3,010,000 of the Amended Notes can be converted into (ii) 3,010 shares of the Company's newly formed Series A Senior Secured Convertible Preferred Stock (the "Preferred") at a stated value of \$1,000 per share. The Preferred is convertible into common stock at \$0.75 per share, subject to adjustment as provided for in the Certificate of Designations (discussed below);

- .. Except for the Stillwater Warrant whose exercise price was unchanged, the Amendment Agreements 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 requires the issuance of Warrants exercisable for an additional 3,831,859 shares of common stock at \$1.03 per share with an expiration date of July 21, 2011;
- .. The Amended Notes eliminate the requirement that the Company comply with certain covenants of management contained in the Notes. Specifically, among other things, the requirements to defer management compensation and to maintain a management committee were removed; and
- The Amended Notes and/or the Preferred are subject to certain anti-dilution adjustment rights in the event the Company issues shares of its common stock or securities convertible into its common stock at a price per share that is less than the Conversion Price, in which case the Conversion Price shall be adjusted to such lower price. The Amended Warrants are subject to certain anti-dilution adjustment rights in the event the Company issues shares of its common stock or securities convertible into its common stock at a price per share that is less than the Strike Price, in which case the Strike Price shall be adjusted to the lower of (1) 138% of the price at which such common stock is issued or issuable and (2) the exercise price of warrants, issued in such transaction.

Pursuant to the Amended Notes, the Company cannot enter into a transaction that constitutes a Fundamental Change without the consent of the Holders. A Fundamental Change includes the following:

- § the consolidation or merger of the Company or any of its subsidiaries;
- § the acquisition by a person or group of entities acting in concert of 50% or more of the combined voting power of the outstanding securities of the Company; and
- § the occurrence of any transaction or event in which all or substantially all of the shares of the Company's common stock is exchanged for, converted into, acquired for, or constitutes the right to receive consideration which is not all or substantially all common stock which is listed on a national securities exchange or approved for quotation on Nasdaq or any similar United States system of automated dissemination of transaction reporting securities prices.

Pursuant to the Amendment Agreements, the Company is required to file a Certificate of Designations of Series A Senior Secured Convertible Preferred Stock (the "Certificate of Designations"). The Certificate of Designations designates 3,198 shares of the Company's preferred stock as Series A Senior Secured Convertible Preferred Stock (the "Preferred Stock"). Each share of the Preferred Stock has a stated value of \$1,000. The Preferred Stock is entitled to cumulative dividends which accrue at a rate of 8% per annum, payable on the December 21, 2008. Each share of Preferred Stock has voting rights equal to (1) in any case in which the Preferred Stock votes 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 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) and (2) in any case not covered by the immediately preceding clause one vote per share of Preferred Stock. The Certificate of Designations prohibits the Company from entering into a Fundamental Change without consent of the Holders and contains antidilution adjustments rights that are comparable to the antidilution adjustment contained in the Amended Notes.

Pursuant to the Amendment Agreements, the Company was required to file a registration statement with the Securities and Exchange Commission by August 31, 2007 covering the resale of 100% of the sum of (a) the number of shares issuable upon conversion of the Amended Notes and Preferred Stock, and (b) the number of shares issuable upon exercise of the Warrants.

Pursuant to the Amendment Agreement, the Company and the Collateral Agent, on behalf of the note holders, executed Amendment No. 1 to the Pledge and Security Agreement; Amendment No. 1 to Patent and Trademark Security Agreement and Amendment No. 1 to Lockbox Agreement. The Pledge and Security Agreement, Trademark Security Agreement and Lockbox Agreement were previously entered into on July 21, 2006 (collectively, the "Ancillary Agreements"). The Ancillary Agreements were amended to cover obligations that may become payable to holders of Preferred Stock, to delete certain definitions used in the Ancillary Agreements and substitute definitions of terms used in the Ancillary Agreements.

The summary of amendment terms contained herein does not include all information included in the Amendment Agreement, the Amended Notes, the Amended Warrants, the Certificate of Designations or the Ancillary Agreements and, consequently, is qualified in its entirety by reference to the entire text of the Amendment Agreements and the forms of the Amended Notes, Amended Warrants, Certificate of Designations, Amendment No. 1 to Pledge and Security Agreement, Amendment No. 1 to Patent and Trademark Security Agreement and Amendment No. 1 to Lockbox Agreement.

Amendment No. 2 to the Loan and Security Agreement – March 2008

As previously reported on a Form 8-K that was filed with the Securities and Exchange Commission on August 10, 2007, the Company entered into a Loan and Security Agreement, dated as of August 7, 2007 (the "Loan and Security

Agreement”). The Loan and Security Agreement was amended pursuant to Amendment No. 1 to the Loan and Security Agreement on January 30, 2008 (the “First Amendment”), with Moriah Capital, L.P. (“Moriah”).

The Company and Moriah have entered into Amendment No. 2 to the Loan and Security Agreement dated as of March 25, 2008 (the “Second Amendment”). Pursuant to the Second Amendment, Moriah waived the Company’s noncompliance with Sections 7.2, 7.3, 8.11, 9.1, 9.3, 9.5(c) and 11.5 of the Loan and Security Agreement to the extent such noncompliance resulted solely from the Company’s inadvertently misstating the amount of its inventory that contained defective parts (the “Defective Inventory Count”), provided that on or before April 8, 2008 the Company repays Moriah all prior Advances (as defined in the Loan and Security Agreement), which exceed the Maximum Credit (as defined in the Loan and Security Agreement) if any, as a result of the Defective Inventory Count.

Pursuant to the Second Amendment, the Company has advised Moriah of certain delays in implementing the Lockbox Agreement, as required under the Loan and Security Agreement, which, if un-waived, would result in the Company’s noncompliance with section 2.1(f) of the Loan and Security Agreement and with Section 3 of the Post-Closing Agreement between the Company and Moriah, dated August 7, 2007. Moriah has agreed to waive noncompliance with Sections 2.1(f) of the Loan and Security Agreement and Section 3 of the Post-Closing Agreement in reliance on the Company’s representation and warranty that all lockbox arrangements required to be implemented under Section 2.1(f) of the Loan and Security Agreement and under Section 3 of the Post-Closing Agreement have been consummated and are in full force and effect as of March 14, 2008.

As previously reported, the Company and Moriah entered into a Warrant Issuance Agreement dated January 30, 2008 (the “Warrant Issuance Agreement”). The Company and Moriah entered into Amendment No. 1 to the Warrant Issuance Agreement. Pursuant to the Amendment No. 1 to Warrant Issuance Agreement, the Company issued Moriah a Warrant to purchase 250,000 shares of the Company’s common stock at an exercise price of \$1.50 per share until March 25, 2013 (the “March 2008 Warrant”). Pursuant to the Amendment No. 1 to the Warrant Issuance Agreement, Section 3.2 of the Warrant Issuance Agreement was amended to provide that the Company has to file by April 29, 2008 a registration statement with the Securities and Exchange Commission to register 1,000,000 shares of the Company’s common stock issuable upon exercise of warrants issued to Moriah (including the March 2008 Warrant and a warrant to purchase 750,000 shares of the Common Stock which was previously issued to Moriah).

The Company claims an exemption from the registration requirements of the Act for the private placement of these securities pursuant to Section 4(2) of the Act since, among other things, these transactions did not involve a public offering and we took appropriate measures to restrict the transfer of the securities.

Securities Purchase Agreement – April 2008

On April 2, 2008, the Company entered into a Securities Purchase Agreement, pursuant to which it sold to certain qualified institutional buyers and accredited investors (the “Investors”) an aggregate of 1,586,539 shares of the Company’s common stock, par value \$0.001 per share (the “Shares”), and warrants to purchase an additional 793,273 shares of common stock, for an aggregate purchase price of \$1,650,000. The purchase price of the common stock was \$1.04 per share and the strike price of the corresponding warrant was \$1.30 per share. The warrants expire April 2, 2013.

The Company entered into a Registration Rights Agreement with the Investors to register the resale of the Shares 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 45 days of the closing, to use its best efforts to cause the registration statement to be declared effective under the Securities Act of 1933 (the “Act”) as promptly as possible after the filing thereof, but in no event later than 90 days after the filing date and no later than 120 days after the filing date in the event of SEC review of the registration statement.

The Company claims an exemption from the registration requirements of the Act for the private placement of these securities pursuant to Section 4(2) of the Act and/or Regulation D promulgated thereunder since, among other things, the transaction did not involve a public offering, the investors were accredited investors and/or qualified institutional buyers, the investors had access to information about the company and their investment, the investors took the securities for investment and not resale, and the Company took appropriate measures to restrict the transfer of the securities.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary 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 statements of operations data for the years ended December 31, 2007, 2006, and 2005 and the balance sheet data at December 31, 2007 and 2006 are derived from our audited financial statements which are included in our Form 10-K filed with the Securities and Exchange Commission on April 14, 2008 and included elsewhere herein. The statements of operations data for the years ended December 31, 2004 and 2003 and the balance sheet data at December 31, 2005, 2004 and 2003 are derived from our audited financial statements which are not included herein. 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:

	2007	For the Year Ended December 31,			2003
		2006	2005	2004	
		(In thousands, except per share data)			
Revenue	\$ 17,554	\$ 8,169	\$ 3,745	\$ 3,593	\$ 2,578
Cost of goods sold	12,628	11,359	10,219	5,966	5,141
Gross profit (loss)	4,926	(3,190)	(6,474)	(2,373)	(2,563)
Operating expenses:					
Research and development	2,949	4,406	4,020	898	19
Selling, general and administrative	6,591	8,860	6,316	4,428	5,712
Total operating expenses	9,540	13,266	10,336	5,326	5,731
Loss from operations	(4,614)	(16,456)	(16,810)	(7,699)	(8,294)
Other (expense) income, net	(13,874)	1,190	282	(5,012)	3,571
Net loss	\$ (18,488)	\$ (15,266)	\$ (16,528)	\$ (12,711)	\$ (4,723)
Basic and diluted loss per share	\$ (1.59)	\$ (1.52)	\$ (1.94)	\$ (1.98)	\$ (1.31)
Shares used in calculation of loss per share:					
Basic and diluted	11,633	10,058	8,541	6,428	3,599

Consolidated Balance Sheet Data:

	2007	December 31,			
	2007	2006	2005	2004	2003
Cash and cash equivalents	\$ 713	\$ 1,415	\$ 6,727	\$ 13,457	\$ 1,054
Working capital (deficit)	\$ (4,708)	\$ (305)	\$ 8,868	\$ 14,925	\$ 106
Total assets	\$ 6,648	\$ 7,005	\$ 14,142	\$ 18,436	\$ 3,749
Long-term obligations	\$ 60	\$ 2,229	\$ 56	\$ 22	\$ 6,161
Total shareholders’ (capital deficit) equity	\$ (3,975)	\$ (1,164)	\$ 10,401	\$ 16,447	\$ (4,767)

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. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. 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 a history of losses since our inception and may incur losses for the foreseeable future.

Our accumulated losses are \$199 million as of December 31, 2007. 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 including markets development, sales and marketing, manufacturing equipment, acquisitions, 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.

As we have reported, our business is expected to experience significant revenue growth during the year ending December 31, 2008. We anticipate that our cash requirements to fund operating or investing cash requirements over the next twelve months may be greater than our current cash on hand and borrowing availability under our revolving credit facility. 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. No assurance can be given that additional financing will be available, or if available, will be on acceptable terms.

We may be subject to fines, sanctions, and/or penalties of an indeterminable nature as a result of potential violations of federal securities laws.

In July 2006, we entered into a Note Purchase Agreement with Stillwater LLC, which provided for the purchase and sale of a 6% senior secured convertible note in principal amount of up to \$500,000 (the "Stillwater Note") and a warrant to purchase 70% percent of the number of shares issuable upon conversion of the Stillwater Note, at our sole discretion by delivery of a notice to Stillwater on December 14, 2006. We then filed a registration statement on Form S-3 to register the resale by Stillwater of up to 41,088,445 shares of our common stock. In July 2007, we amended the agreements with Stillwater. Amending the Stillwater agreements without first withdrawing the Registration Statement on Form S-3 may be inconsistent with Section 5 of the Securities Act of 1933, as amended, and we may be subject to fines, sanctions and/or penalties of an indeterminable nature as a result of potential violations of federal securities laws. If we are assessed fines and penalties our business will be materially affected.

The issuance of shares of common stock in connection with the conversion of the Notes may have not have been in compliance with certain state and federal securities laws and any damages that we may have to pay as a result of such issuance could have a material adverse effect on our revenues, profits, results of operations, financial condition and future prospects.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

Our consolidated financial statements as of December 31, 2007 have been prepared under the assumption that we will continue as a going concern. Our independent registered public accounting firm has issued a report dated April 9, 2008 that included an explanatory paragraph expressing substantial doubt as to our ability to continue as a going concern. Our ability to continue as a going concern ultimately depends on our ability to generate a profit which is likely dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 maintain and attract 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 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 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.

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.

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

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

of these events could have a material adverse impact on our business.

We may not be successful in protecting our intellectual property and proprietary rights.

We rely on a combination of patents, trade secret protection, licensing agreements and other arrangements to establish and protect our proprietary technologies. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. Patents may not be issued for our current patent applications, third parties may challenge, invalidate or circumvent any patent issued to us, unauthorized parties could obtain and use information that we regard as proprietary despite our efforts to protect our proprietary rights, rights granted under patents issued to us may not afford us any competitive advantage, others may independently develop similar technology or design around our patents, our technology may be available to licensees of Eastman Kodak, and protection of our intellectual property rights may be limited in certain foreign countries. 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.

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;
 - 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 and downturns in the demand for flat panel displays 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.

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 competitive position could be damaged if one or more of our competitors' products get to the market sooner than our products. We cannot assure you that our product will get to market ahead of our competitors or that we will be able to compete successfully against current and future competition. The failure to do so would have a materially adverse effect upon our business, operating results and financial condition.

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 plan to sell most of our microdisplays to OEMs who will incorporate them into products they sell. OEMs determine during their product development phase whether they will incorporate our products. The time elapsed between initial sampling of our products by OEMs, the custom design of our products to meet specific OEM product requirements, and the ultimate incorporation of our products into OEM consumer products is significant 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 effect 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 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.

The ineffectiveness of our internal control over financial reporting could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”), and the rules and regulations promulgated by the SEC to implement Section 404, we are required to include in our Form 10-K an annual report by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

As of December 31, 2007, our internal control over financial reporting was ineffective due to the presence of material weaknesses, as more fully described herein. This could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which may have an adverse effect on our stock price.

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 are now receiving longer term purchase agreements, such as those which comprise our approximately \$7.3 million backlog as of March 14, 2008, 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 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 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 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 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.

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 April 18, 2008, we have outstanding (i) options to purchase 954,898 shares and (ii) warrants to purchase 10,927,047 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.

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FORWARD LOOKING STATEMENTS

We and our representatives may from time to time make written or oral statements that are “forward-looking,” including statements contained in this prospectus and other filings with the Securities and Exchange Commission, reports to our stockholders and news releases. All statements that express expectations, estimates, forecasts or projections are forward-looking statements. In addition, other written or oral statements which constitute forward-looking statements may be made by us or on our behalf. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “projects,” “forecasts,” “may,” “should,” variations of such words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in or suggested by such forward-looking statements. Among the important factors on which such statements are based are assumptions concerning our ability to obtain additional funding, our ability to compete against our competitors, our ability to integrate our acquisitions and our ability to attract and retain key employees.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of shares of common stock in this offering. However, we will receive the sale price of any common stock we sell to the selling stockholders upon exercise of the warrants owned by the selling stockholders. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes. We have not declared or paid any dividends and do not currently expect to do so in the near future.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board under the symbol “EMAN.OB.” The following table sets forth the high and low sales prices as reported by the NASDAQ Bulletin Board Market for the periods indicated.

	High	Low
Fiscal 2006		
First Quarter	\$ 7.10	\$ 4.60
Second Quarter	\$ 5.70	\$ 2.50
Third Quarter	\$ 3.80	\$ 1.80
Fourth Quarter	\$ 2.50	\$ 1.01
Fiscal 2007		
First Quarter	\$ 1.08	\$ 0.26
Second Quarter	\$ 0.85	\$ 0.42
Third Quarter	\$ 1.64	\$ 0.65
Fourth Quarter	\$ 1.75	\$ 0.85
Fiscal 2008		
First Quarter	\$ 1.47	\$ 0.88
Second Quarter (as of April 18, 2008)	\$ 1.05	\$ 0.95

As of April 18, 2008, there were 503 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.

SELECTED FINANCIAL DATA

The following table summarizes our consolidated financial data for the periods presented. We prepared this information using our consolidated financial statements for each of the periods presented. 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 historical results are not necessarily indicative of results to be expected for future periods.

Consolidated Statements of Operations Data:

	2007	For the Year Ended December 31,			2003
		2006	2005	2004	
	(In thousands, except per share data)				
Revenue	\$ 17,554	\$ 8,169	\$ 3,745	\$ 3,593	\$ 2,578
Cost of goods sold	12,628	11,359	10,219	5,966	5,141
Gross profit (loss)	4,926	(3,190)	(6,474)	(2,373)	(2,563)
Operating expenses:					
Research and development	2,949	4,406	4,020	898	19
Selling, general and administrative	6,591	8,860	6,316	4,428	5,712
Total operating expenses	9,540	13,266	10,336	5,326	5,731
Loss from operations	(4,614)	(16,456)	(16,810)	(7,699)	(8,294)
Other (expense) income, net	(13,874)	1,190	282	(5,012)	3,571
Net loss	\$ (18,488)	\$ (15,266)	\$ (16,528)	\$ (12,711)	\$ (4,723)
Basic and diluted loss per share	\$ (1.59)	\$ (1.52)	\$ (1.94)	\$ (1.98)	\$ (1.31)
Shares used in calculation of loss per share:					
Basic and diluted	11,633	10,058	8,541	6,428	3,599

Consolidated Balance Sheet Data:

	2007	December 31,			2003
		2006	2005	2004	
Cash and cash equivalents	\$ 713	\$ 1,415	\$ 6,727	\$	