EMAGIN CORP
Form 10-K/A
April 30, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2001

OR

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

Commission File Number 000-24757

EMAGIN CORPORATION
(Exact name of registrant as specified in its charter

Delaware	56-1764501
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

Registrant's telephone number, including area code:
(845) 892-1900

Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock (par value $0.001 per share)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of Common Stock reported by The American Stock Market on April 25, 2002, was approximately $24.2 million. For the purposes of calculation, all executive officers and directors of the Company and all beneficial owners of more than 10% of the Company's stock (and their affiliates) were considered affiliates.

As of April 1, 2001, the Registrant had outstanding 30,262,854 shares of Common Stock.

PRELIMINARY NOTE:

This Amended Annual Report on Form 10-K/A is being filed to report Part III information (Items 10, 11, 12 and 13) in lieu of the incorporation of such information by reference to the Company's definitive proxy material for its 2001 Annual Meeting of Shareholders. In all other material respects, this Amended Annual Report on Form 10-K/A is unchanged from the 2001 Annual Report on Form 10-K previously filed by the Company on April 1, 2002.

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FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1: BUSINESS

Introduction

eMagin Corporation designs, develops, and markets OLED (organic light emitting diode)-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 a virtual image that appears comparable to that of a computer monitor or a large-screen television. Our first commercial product, the SVGA+ (Super Video Graphics Array plus 52 added columns of data) OLED microdisplay was first offered for sampling in 2001, and our first SVGA-3D

(Super Video Graphics Array plus built-in stereovision capability) microdisplay was first shipped in February 2002. We are now accepting orders for larger quantities of our first microdisplay product and shipping samples of our second commercial microdisplay product. 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.

Our OLED-on-silicon microdisplays offer a number of advantages over current liquid crystal microdisplays, including increased brightness, lower power requirements, less weight and wider viewing angles. Using our 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 alternate microdisplay technologies. We license fundamental OLED technology from Eastman Kodak and we have developed our own technology to create high performance OLED-on-silicon microdisplays and related optical systems. Stanford Resources-iSuppli, an industry market research organization, has recently identified the emergence of OLED technology as a major advance, with OLED revenue expected to rise to more than $1.6 billion in 2007 from $200 million this year.

As the first to exploit OLED technology for microdisplays, and with our partners and intellectual property, we believe that we enjoy a significant advantage in the commercialization of this display technology. We are the only company to announce, publicly show and sell full-color OLED-on-silicon microdisplays.

Industry Overview

The overall flat panel display industry is predicted to grow to over $69 billion in 2005, according to market research by DisplaySearch. Within the flat panel industry there are various sizes and applications of flat panel displays, ranging from wall size signage to calculator and viewfinder displays. Displays are sold as independent products (such as flat TVs) or as components of other systems (such as laptop computers). Our products target one segment of the flat panel industry - near-eye microdisplays.

Near-eye microdisplays are used in small optically magnified devices such as video headsets, camcorders, viewfinders and other portable devices. Microdisplays are typically of such

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high resolution that they are only practically viewed with magnifying optics. Although the displays are typically physically smaller than a postage stamp, they can provide a magnified viewing area similar to that of a full size computer screen. For example, when magnified through a lens, a high-resolution 0.5-inch to 0.75-inch diagonal display can appear comparable to a 19 to 21-inch diagonal computer screen at about 2 feet from the viewer or a 60-inch TV screen at about 6 feet. One version of our optics recreates the viewing and sound experience of sitting in the middle seat of a typical movie theater.

Stanford Resources-iSuppli, a market intelligence firm focusing on the global electronic display industry, forecasts that the world market for microdisplays as components will grow from $669 million in 2001 to $1.9 billion in 2007, for a compounded annual growth rate of 19%. Another leading industry market research organization, DisplaySearch, projects that the microdisplay market is expected to grow to $3.1 billion by 2005.

We believe that the most significant driver of the microdisplay market is growing consumer demand for mobile access to larger volumes of information and entertainment in smaller packages. This desire for mobility has resulted in the

development of microdisplay products in two categories: (i) near-eye microdisplays incorporated in products such as viewfinders, digital cameras, video cameras and personal viewers for cell phones and (ii) headset-application platforms which include mobile devices such as notebook and sub-notebook computers, wearable computers, portable DVD systems, games and other entertainment.

Until now, microdisplay technologies have not simultaneously met all of the requirements for high resolution, full color, low power consumption, brightness, lifetime, size and cost which are required for successful commercialization in OEM consumer products. We believe that our new OLED-on-silicon microdisplay product line meets these requirements better than alternate products and will help to enable virtual imaging to emerge as an important display industry segment.

Our Approach: OLED-on-Silicon Microdisplays and Optics

Our microdisplays are based upon organic light emitting diode (OLED)-on-silicon technology. Our OLED-on-silicon technology uniquely permits millions of individual low-voltage light sources to be built on low-cost, silicon computer chips to produce single color, white, or full-color display arrays. OLED-on-silicon microdisplays offer a number of advantages over current liquid crystal microdisplays, including increased brightness, lower power requirements, less weight and wider viewing angles. Using our OLED technology, many computer and video electronic system functions can be built directly into the silicon chip, under the OLED film, resulting in very compact, integrated systems with lowered overall system costs relative to alternate technologies.

We have developed our own proprietary technology to create high performance OLED-on-silicon microdisplays and related optical systems and we license fundamental OLED technology from Eastman Kodak. (See "Intellectual Property" and "Strategic Relationships") We expect that the integration of our OLED-on-silicon microdisplays into mobile electronic products

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will result in lower overall system costs to our original equipment manufacturer (OEM) customers.

We believe that our OLED-on-silicon microdisplays represent a new generation of microdisplay technology. Because our microdisplays generate and emit light, they have a wider viewing angle than competing liquid crystal microdisplays, and because they have the same high brightness at all forward viewing angles, our microdisplays permit a large field-of-view and superior optical image. The wider viewing angle of our display results in the following superior optical characteristics:

- the user does not need to as accurately position the head-wearable display to the eye;
- the image will change minimally with eye movement and appear more natural; and
- the display can be placed further from the eye.

In addition, our OLED-on-silicon microdisplays offer faster response times and use less power than competitive liquid crystal microdisplay systems. We expect that our integrated electronics and unique OLED characteristics, coupled with our lenses, will result in lower overall system costs for OEMs.

Our OLED microdisplay stores, until refreshed, all the color and luminance

value information at each of the more than 1.5 million picture elements (pixels) in the display array, eliminating the flicker or color breakup seen by most other high-resolution microdisplay technologies. Power consumption at the system level is expected to be the lowest of any full-color, full-video SVGA resolution range, large view microdisplay on the market. The OLED's ability to emit light at wide angles allows customers to create large field of view (approx. 40 degrees), wide image capture range images from very compact, low-cost, one-piece optical systems. The display contains the majority of the electronics required for connection to the RGB (red, green, blue signal) port of a portable computer imbedded in its silicon chip backplane, thereby eliminating many other components required by other display technologies such as D-A converters, application-specific integrated circuits (ASICs), light sources, multiple optical elements, and other components. We believe that these features enable our new class of microdisplay to potentially be the most compact, highest image quality, and lowest cost solution for high resolution near-eye applications, once in full production.

We have completed the development of our first two customer-oriented products, our SVGA+ resolution microdisplay (1.53 million picture elements) and our stereovision-capable SVGA-3D microdisplay (1.44 million picture elements). We are currently far along in developing a military and industrial oriented ultra-high-luminance SXGA integrated circuit (3.9 million picture elements) that is due for completion in 2002. We plan to sell our OLED-on-silicon microdisplays for use as components by customers who prefer to design and build their own lenses. We also plan to offer OLED processing on our customers' integrated circuits to some OEMs who design their own integrated circuits. We also provide Developer Kits which include a color SVGA+ resolution microdisplay and associated electronics required for OEMs to build and test new products. This developer kit provides OEMs with the first opportunity for evaluation of an OLED-on-silicon microdisplay.

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Our Products

We offer our products to Original Equipment Manufacturers (OEM) and other large volume buyers as both separate components and integrated bundles in a three-tiered platform:

(1) OLED-on-silicon microdisplays for integration into OEM products for consumer, industrial, and military markets;

(2) MicroviewerTM modules that incorporate our OLED-on-silicon microdisplays with compact lenses and electronic interfaces for integration into OEM products for consumer, industrial, and military markets; and

(3) Head-wearable display systems that will incorporate our MicroviewersTM for consumer and industrial markets.

We also plan to offer engineering support, enabling customers to quickly integrate our products into their own product development programs.

(1) OLED Microdisplay Products

We serve as a component manufacturer by supplying our OLED-on-silicon microdisplays for those customers who have their own lenses or integrated circuits. Our first commercial microdisplay products include:

0.62-inch Diagonal SVGA+ (Super Video Graphics Array plus 52 added columns of data) for Consumer OEMs. This display has a resolution of 852 x 3 x 600

pixels, and was dubbed "SVGA+" because it has 52 more display columns than a standard SVGA display. The design permits users to run either (1) standard SVGA (800 x 600 pixels) to interface to the analog output of many portable computers or (2) 852 x 480, using all the data available from a DVD player in a 16:9 wide screen entertainment format. The SVGA+ can be made as a full-color or monochrome microdisplay primarily for high-performance and large-view consumer OEM products such as games, video/data head-wearable displays, digital cameras, video cameras and other portable electronics applications. The display also has an internal NTSC monochrome video decoder for low power night vision systems. This product is designed to interface with most portable personal computers.

0.59-inch Diagonal SVGA-3D (Super Video Graphics Array plus built-in stereovision capability) for Consumer OEMs. This display has a resolution of 800 x 3 x 600 pixels. The SVGA-3D can be made as a full-color or monochrome microdisplay primarily for high-performance and large-view consumer OEM products such as personal computer games and video/data head-wearable displays, but is also designed to be applicable for digital cameras, video cameras and other portable electronics applications since the 3D feature is optional. A built-in circuit provides compatibility with single channel frame sequential stereoscopic vision without additional external components. In high volumes, the SVGA-3D is priced lower than the SVGA+, so it is likely to be selected whenever the OEM customer does not need monochrome NTSC or the extra columns of resolution.

0.98-inch Diagonal SXGA (Super Extended Video Graphics Array) for Industrial, Medical and Military Applications. We are developing an introductory SXGA microdisplay product as a personal computer-compatible headset display for military, medical, high-end commercial, and industrial applications. This product will have 1280 x 1024 monochrome pixels and will be adaptable to color VGA resolution. The display will have a capability for very high luminance. We expect that this display will be able provide over 30,000 Cd/m2 luminance. For reference, a typical notebook computer operates at 80 Cd/m2 peak luminance. This digital video and data interface product is being designed to exhibit a wide dimming range and high luminance for special military applications. We anticipate that the performance features of the SXGA, such as high-speed digital video and 256 gray levels, have the potential to serve as a catalyst for the development of new applications.

(2) MicroviewerTM Products Incorporating Lenses

By providing an integrated solution of a complete microdisplay and lens assembly to integrate into OEM customers' end product design, OEM customers can avoid incurring expensive optics design and tooling costs. Different lens and microdisplay specifications can be mixed and matched to be adapted to many end products.

We have developed advanced lens technology for several applications and hold key patents on low cost, high performance lens technology for microdisplay applications. Our lens technology permits our OLED-on-silicon microdisplays to provide large field of view images that can be viewed for extended periods with reduced eye-fatigue.

We intend to sell MicroviewerTM modules to OEMs for integration with their branded products, or incorporated into eGlassTM Personal ViewerTM head-wearable displays to be supplied by our subsidiary, Virtual Vision, Inc. Some of our potential customers have stated a preference for MicroviewersTM over microdisplays since MicroviewersTM incorporate lenses which save OEMs a step in their manufacturing process and can save them the long time required to develop a high performance lens system.

(3) eGlassTM Personal ViewerTM Head-Wearable Systems

Personal ViewerTM head-wearable systems, such as our eGlassTM Personal ViewerTM, give users the ability to work with their hands while simultaneously viewing information or video on the display. Our head-wearable displays are a versatile computer enabler, capable of delivering an image that appears comparable to that of a 19-inch monitor at 22 to 24 inches from the eye using a 0.59-inch diagonal microdisplay (SVGA-3D). We believe that Personal Viewer head-wearable displays will fill the increasing demand for instant data accessibility in mobile workplaces. We expect to sell the head-wearable displays primarily to OEM systems and equipment customers through direct sales and our e-commerce website which is under development.

We believe that our strategy of offering our products both as separate components and as integrated bundles that include microdisplays and lenses will allow us to address the needs of the largest number of potential customers.

Recent Product and Technology Awards

o Dual Use Technology Achievement Award

March 2002. eMagin and the US Air Force Armstrong Laboratory received first place for the US Air Force and was recognized as one of the best dual use technologies in 2001 recognition across all branches of the Armed Services for the Second Annual Dual Use Science and Technology Achievement Award awarded by the Deputy Under Secretary for Defense, Charles J. Holland. The award recognizes the best dual use programs and honors those responsible for developing and implementing technology beneficial to both military and commercial sectors.

o 2001 Product of the Year

January 17, 2001. eMagin received a 2001 Product-of-the-Year Award from Electronic Products Magazine, honoring eMagin for the development of its first-of-class high-resolution active matrix OLED-on-silicon microdisplay, based on significant advances in technology.

o 2001 U.S. Army Phase II Quality Award

August 21, 2001. eMagin received a 2001 US Army SBIR (Small Business Innovation Research) Phase II Quality Award for the development of high-resolution active matrix OLED microdisplays for incorporation into military head-mounted displays. The annual Quality Awards Program recognizes top quality Army Phase II projects for their technical achievement, contribution to the Army and potential for commercial use. Selected by a distinguished panel of Army and industry experts, eMagin's project was among only five selected to receive a 2001 U.S. Army SBIR Phase II Quality Award through the rigorous Quality Awards competition.

o Display of the Year 2000 Gold Award

June 6, 2001. eMagin was honored by The Information Display Magazine and Society Information Display with the Display of the Year Gold Award for its OLED-on-Silicon microdisplay. The Display of the Year Award was established in 1995 to recognize outstanding products chosen for their innovation and potential impact on current and future display markets. An international committee of distinguished display technologists and leading editors in a four-month process of nominations and voting made the selection.

Our Market Opportunity

The growth potential of our selected target market segments have been investigated using information gathered from key industry market research firms, including Display Search, Frost and Sullivan, Fuji-Chimera, International Data Corporation, Nikkei, SEMI, Stanford Resources-iSuppli and others. Such data was obtained using published reports and data obtained at industry symposia. We have also relied substantially on market projections obtained privately from industry leaders, industry analysts, and potential customers.

We believe that the consumer oriented, virtual-imaging market is characterized by about 20 large OEMs that, collectively, dominate 90% of the market. The non-consumer market consists of niches - industrial, medical,

military, arcade games, 3-D CAD/Virtual Reality, and wearable computers. Within each of these market sectors, we believe that our microdisplays, when combined with compact optic lenses, will become a key component for a number of mobile electronic products. We are targeting the following applications:

(1) Near-Eye Viewers for Digital Cameras, Camcorders and Hand-held Internet and Telecommunications Appliances

We believe that our microdisplays will enhance near-eye applications in the following groups of products:

-- Digital cameras and camcorders, which typically use direct view displays at low resolution, offer a small visual image, and are difficult to see on sunny days. According to Display Search, 41 million digital cameras and 13 million camcorders are expected to be sold in 2005. Some of these products may incorporate microdisplays as high-resolution viewfinders which would permit individuals to see enlarged, high-resolution proofs immediately upon taking the picture, giving them the opportunity to retake a poor shot.

-- Mobile phones and other hand-held Internet and telecommunications appliances which will enable users to access full web and fax pages, data lists and maps in a pocket-sized device. According to the Fuji Chimera Research Institute, an industry market research organization, by 2005 the cellular phone and handheld portable digital assistant markets will grow to 655 million units and 20 million units, respectively. Some of these products may eventually incorporate our microdisplays. In order for the high-resolution wireless telecommunications market to develop, Generation 3 (G3) high speed data transmission must become widely available.

For each of these applications, we anticipate that our microdisplays, combined with compact optic lenses, will offer higher resolution, lower power and system cost and achieve larger images than are currently available in the consumer market. As a result, we believe that we can obtain a sizeable share of the market for the display components of these mobile electronic products.

(2) Head-wearable Display Platforms

Head-wearable displays incorporate microdisplays mounted in or on eyeglasses, goggles, simple headbands, helmets, or hardhats, and are often referred to as HMDs or headsets. Head-wearable displays may block out surroundings for a fully immersive experience, or be designed as "see-through" or "see-around" to the user's surroundings. They may contain one (monocular) or two (binocular) displays. Some of the increased current interest is due to accelerating the timetable to adapt such systems to military applications such

as night vision and fire and rescue applications.

Military

Military demand for head-wearable displays is currently being met with microdisplay technologies that we believe to be inferior to our OLED-on-silicon products. The new generation of soldiers will be highly mobile, and will often need to carry highly computerized communications and surveillance equipment. To

enable interaction with the digital battlespace, rugged, yet lightweight and energy efficient technology is required. Currently available microdisplay technologies do not meet the requirements for low power, hands-free, day and night-viewable displays. Our OLED microdisplays demonstrate performance characteristics important to military and other demanding commercial and industrial applications including high brightness and resolution, wide dimming range, wider temperature operating ranges, shock and vibration resistance and insensitivity to high G-forces. The image does not suffer from flicker or color breakup in vibrating environments, and the microdisplay's wide viewing angle allows ease of viewing for long periods of time. The OLED's very low power consumption reduces battery weight and increases allowed mission length. Properly implemented, we believe that head-mounted systems incorporating our microdisplays will increase effectiveness by allowing hands-free operation and increasing situational awareness with enough brightness to be used in daylight, yet controllable for nighttime light security. The OLED's wide temperature range is especially of interest for military applications because the display can turn on instantly at temperatures far below freezing and can operate at very high temperatures in desert conditions.

Our OLED microdisplays were selected for several aircraft vehicles and soldier applications, including the US Army Land Warrior program and the US Air Force Joint Strike Fighter. Land Warrior, a core program in the Army's drive to digitize the battlefield, is an integrated digital system that incorporates computerized communication, navigation, targeting and protection systems for use by the twenty-first century infantry soldier. Kaiser Electro-Optics, a Rockwell Collins company and the principal contractor for the US Army's Land Warrior HMD system, and eMagin will apply their respective expertise in HMD and imaging technology to develop rugged, yet lightweight and energy efficient products meeting the requirements of tomorrow's soldier. The US Army expects to initially equip more than 40,000 soldiers with the Land Warrior system. The US Air Force has selected our OLED microdisplay technology for incorporation into the Strike Helmet 21 system that uses Integrated Panoramic Night Vision Goggles (IPNVG) in avionics helmets. The Strike Helmet 21 system is targeted for integration into F-15E aircraft in the 2003-2004 time period. Similar systems are of interest for other military applications as well as for related operations such as fire and rescue.

Commercial and Industrial

We believe that a wide variety of commercial and industrial markets offer significant opportunities due to increasing demand for instant data accessibility in mobile workplaces. Some examples of microdisplay applications include: immediate access to inventory (parts, tools and equipment availability); instant accessibility to maintenance or construction manuals; routine quality assurance inspection; and real-time viewing of images and data during microsurgery or endoscopy.

Consumer

We believe that our head-wearable display products will enhance the following consumer products:

-- Entertainment and gaming video headset systems, which permit individuals to view television (including HDTV), video CDs, DVDs and video games on virtual

large screens or stereovision in private without disturbing others. Even though entertainment and gaming headsets represent an emerging product class, we are seeing demand from OEMs. Headset game systems for portable computers with head tracking and/or stereovision appears to be our predominate high quantity near term market opportunity, with several customers indicating an interest in large production quantities of our displays. Our current SVGA-3D display was designed specifically for this market. We believe that these new headset game systems can provide a game or telepresence experience not otherwise practical using conventional direct view display technology. We expect low cost to be important for success in this field, and expect our product cost to decrease in high quantity production.

-- Notebook computers, which can use head-wearable devices to reduce power as well as expand the apparent screen size and increase privacy. Current notebook computers do not use microdisplays. Our products can apply not only to new models of notebook computers, but also as aftermarket attachments to older notebooks still in use. We expect to market our head-wearable displays to be used as plug-in peripherals to be compatible with most notebook computers. We believe that the SVGA-3D microdisplay is well-suited for most portable PC headsets. Our microdisplays can be operated using the USB power source of most portable computers. To our knowledge, it is the only microdisplay that is capable of doing this without potentially damaging the PC. This eliminates added power supplies, batteries, and rechargers and reduces system complexity and cost.

-- Handheld personal computers, whose small, direct view screens are often limitations, but which are now capable of running software applications that would benefit from a larger display. Microdisplays can be built into handheld computers to display more information content on virtual screens without forfeiting portability or adding the cost a larger direct view screen. Microdisplays are not currently used in this market. We believe that GPS viewers and other novel products are likely to develop as our displays become more available.

-- Highly compact wearable computers and personal digital assistants (PDAs) using video headsets as screens can be made possible by high-resolution microdisplays. A lightweight (under one pound) pocketsize computer can potentially be created with a fold-out keyboard, compact input device, or voice actuation and a headset that provides a near-desktop personal computer experience.

The combination of power efficiency, high resolution, low systems cost, brightness and compact size offered by our OLED-on-silicon microdisplays has not been made available to makers and integrators of existing entertainment and gaming video headset systems, notebook computers and handheld computers. We believe that our microdisplays will catalyze the growth of new products and applications such as lightweight wearable computer systems.

Selected Applications by Market Sector

Sector	Representative Applications
Portable Computer Peripheral	o Notebook and SuperSubnotebook computer headsets o Miniature data viewers
Entertainment	o Games o Headset Television/DVDs
Industrial, Medical, & Administration	o Surgery and Dentistry o Industrial Control and Safety o Emergency Services o Inventory and Retail o Institutional Control o Maintenance (Industry & Consumer) o Communications o Finance o Education and Training
Military	o Communications o Targeting and Enhanced Vision o Handheld & Headmount Equipment o Body worn displays o Avionics (Helmet mount) o Ground and Water Vehicles o Maintenance & Training o Special Applications
Telecommunications, Handheld, and Small Instruments	o Cell Phones/Headset phones o Handheld & Portable Internet Viewers o Smart Appliances & Instruments
Advanced Computer Applications	o CAD/CAM o Virtual Reality and Simulations o Ultra-High Resolution

Our Strategy

Our strategy is to establish and maintain a leadership position as a worldwide supplier of microdisplays and virtual imaging technology solutions for applications in high growth segments of the electronics industry by capitalizing on our leadership in both OLED-on-silicon technology and microdisplay lens technology. We intend to:

Leverage our superior technology to establish a leading market position. As the first to exploit OLED-on-silicon microdisplays, we believe that we enjoy a significant advantage in bringing this technology to market.

Develop products for large consumer markets via key relationships with OEMs. Our relationships with OEMs whose products use microdisplays have allowed

us to identify initial microdisplay products to be produced for entertainment,

industrial, and military headsets, followed by other applications such as digital cameras, camcorders and hand-held Internet and telecommunications appliances.

Optimize manufacturing efficiencies by outsourcing while protecting proprietary processes. We intend to outsource certain capital-intensive portions of microdisplay production, such as chip fabrication, to minimize both our costs and time to market. We intend to ret ain the OLED application and OLED sealing processes in-house. We believe that these areas are where we have a core competency and manufacturing expertise. We also believe that by keeping these processes under tight control we can better protect our proprietary technology and process know-how. This strategy will also enhance our ability to continue to optimize and customize processes and devices to meet customer needs. By performing the processes in-house we can continue to directly make improvements in the processes which will improve device performance. We also retain the ability to customize certain aspects such as chromaticity (color balance), specialized boards or interfaces, and adjust other parameters at the customer's request. In the area of lenses and head-wearable displays, we intend to focus on design and development, while working with third parties for the manufacture and distribution of finished products. We intend to prototype new optical systems, provide customization of optical systems, and manufacture limited volumes at our subsidiary, Virtual Vision, but intend to outsource high volume manufacturing operations.

Build and maintain strong internal design capabilities. As more circuitry is added to OLED-on-silicon devices, the cost of the end product using the display can be decreased; therefore integrated circuit design capability will become increasingly important to us. To meet these requirements, we intend to develop in-house design capabilities. Building and maintaining this capacity will allow us to reduce engineering costs, accelerate the design process and enhance design accuracy to respond to our customers' needs as new markets develop. In addition, we intend to maintain a product design staff capable of rapidly developing prototype products for our customers and strategic partners. Contracting third party design support to meet demand and for specialized design skills will also remain a part of our overall long term strategy.

Our Strategic Relationships

Strategic relationships have been an important part of our research and development efforts to date and are an integral part of our plans for commercial product launch. We have forged strategic relationships with major OEMs and strategic suppliers. We believe that strategic relationships allow us to better determine the demands of the marketplace and, as a result, allow us to focus our future research and development activities to better meet our customer's requirements. Moreover, we expect to provide microdisplays and MicroviewersTM to some of these partners, thereby taking advantage of established distribution channels for our products.

Eastman Kodak is a technology partner in OLED development, OLED materials, and a potential future customer for both specialty market display systems and consumer market microdisplays. We license Eastman Kodak's OLED and optics technology portfolio. We have a nonexclusive, perpetual, worldwide license to use Eastman Kodak patented OLED technology and associated intellectual property in the development, use, manufacture, import and sale of microdisplays. The license covers emissive active matrix microdisplays with a diagonal size of less

than 2 inches for all OLED display technology previously developed by Kodak. An annual minimum royalty is paid at the beginning of each calendar year and is

fully creditable against the royalties we are obligated to pay based on net sales throughout the year. Eastman Kodak and eMagin have engaged in numerous discussions regarding potential product applications for eMagin's microdisplays by Eastman Kodak.

In our relationship with Eastman Kodak, we share information regarding improvements in the OLED technology and materials generated internally, except where restricted by agreements with other parties. Eastman Kodak and eMagin are also parties to a government research and development program focused on developing ultra-high brightness capable and high temperature compatible OLEDs. Each company has developed certain types of molecules for potential use in different parts of the OLED device structure.

We have a joint research and development agreement with IBM to accelerate the development of OLED-on-silicon technology. The OLED-on-silicon microdisplays developed under the agreement have the potential to be incorporated in future IBM products currently in exploratory or product development stages. This technology may be incorporated into microdisplays for possible use in future microdisplay products, including those manufactured by IBM, such as wearable computers and handheld portable Internet appliances. This technology effort resulted in the development of a prototype watch computer utilizing the Linux operating system, which features the world's first direct view OLED-on silicon-display. The prototype was publicly demonstrated in 2001 at the Consumer Electronics Show in Las Vegas and at CeBit in Germany.

We also have a joint OLED materials development effort with Covion Organic Semiconductors GmbH, a spin-off of Hoechst. We entered into an arrangement with LG Corporation of Seoul, Korea for the provision by us of certain technologies for evaluation by LG in return for a payment of $750,000 which was paid in 2000 and 2001. We also completed a convertible debt financing with SK Corporation of Seoul, Korea on September 18, 2001. We have worked with Honeywell, Kaiser Electronics (a subsidiary of Rockwell Collins), Raytheon, and others on a variety of US government research and development proposals and contracts toward the development of displays for military and consumer applications. The US Air Force and US Army are currently providing support under government research and development contracts for microdisplay development with a goal of future procurement. We had industry relationships with LG Electronics, Harris, NASA, Lawrence Livermore National Laboratories, and the United States Display Consortium, among others. We intend to continue to establish additional strategic relationships in the future.

Our Technology Platforms

OLED-on-Silicon Technology

Scientists working at Eastman Kodak invented OLEDs in the early 1980s. OLEDs are thin films of stable organic materials that emit light of various colors when a voltage is impressed across them. OLEDs are emissive devices, which means they create their own light, as opposed to liquid crystal displays, which require a separate light source. As a result, OLED devices use less power

and can be capable of higher brightness and fuller color than liquid crystal microdisplays. Because the light they emit is Lambertian, which means that it appears equally bright from most forward directions, a moderate movement in the eye does not change the image brightness or color as it does in existing technologies. OLED films may be coated on computer chips, permitting millions of individual low-voltage light sources to be built on silicon integrated circuits to produce single color, white, or full-color display arrays. Many computer and

video electronic system functions can be built directly into a silicon integrated circuit as part of the OLED display, resulting in an ultra-compact system. We believe these features, together with the well-established silicon integrated circuit fabrication technology of the semiconductor industry, make our OLED-on-silicon microdisplays attractive for numerous applications.

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. Eastman Kodak provides many of the underlying OLED technologies and we provide additional technology advancements that have enabled us to coat the silicon integrated circuits with OLEDs.

We have developed numerous and significant enhancements to OLED technology as well as key silicon circuit designs to effectively incorporate the OLED film on a silicon integrated circuit. For example, we have developed a unique, up-emitting structure for our OLED-on-silicon devices that enables OLED displays to be built on opaque silicon integrated circuits rather than only on glass. Our OLED devices can emit full visible spectrum light that can be isolated with color filters to create full color images. Our microdisplay prototypes have a brightness that can be greater than that of a typical notebook computer and can have a potential lifetime of over 50,000 hours, in certain applications. New materials and device improvements in development offer future potential for even better performance for brightness, efficiency, and lifespan. Additionally, we have invested considerable work over several years to develop unique electronics control and drive designs for OLED-on-silicon microdisplays.

In addition to our OLED-on-silicon technology, we have developed compact optic and lens enhancements which, when coupled with the microdisplay, provide the high quality large screen appearance that we believe a large proportion of the marketplace demands.

Advantages of OLED Technology

We believe that our OLED-on-silicon technology provides significant advantages over existing solutions in our targeted microdisplay markets. We believe these key advantages will include:

- Low manufacturing cost;
- Low cost system solutions;
- Wide angle light emission resulting in large apparent screen size;
- Low power consumption for improved battery life and longer system life;

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- Long operating life;
- High brightness for improved viewing;
- High-speed performance resulting in clear video images;
- Wide operating temperature range; and
- Good environmental stability (vibration and humidity).

Low manufacturing cost. Many OLED-on-silicon microdisplays can be built on an 8-inch silicon wafer using existing automated OLED and color filter processing tools. The level of automation used lowers labor costs. Only a minute

amount of OLED material is used in each OLED-on-silicon microdisplay so that material costs, other than the integrated circuit itself, are small. The number of displays per silicon wafer may be higher on OLEDs than on liquid crystal displays (LCDs) because OLEDs do not require a space-wasting perimeter seal band.

Low cost systems solutions. In general, an OEM using OLED-on-silicon microdisplays will not need to purchase and incorporate lighting assemblies, color converter related Applications Specific Integrated Circuits (ASICs), or beam splitter lenses as is the case in liquid crystal microdisplays, which also require illumination. Many important display-related system functions can be incorporated into an OLED-on-silicon microdisplay, reducing the size and cost of the system. Non-polarized light from OLEDs permit lenses for many OLED-on-silicon applications that are made of a single piece of molded plastic, which reduces size, weight and assembly cost when compared to the multipiece lens systems used for liquid crystal microdisplays. System cost relative to liquid crystal and liquid crystal on silicon (LCOS) competitive products is thus reduced. Because our displays are power efficient, they typically require less power at the system level than other display technologies at a given display size and brightness.

Wide-angle light emission simplifies optics for large apparent screen size. OLEDs emit light at most forward directions from each pixel. This permits the display to be placed close to the lens in compact optical systems. It also provides the added benefit of less angular dependence on the image quality relative to pupil and eye position when showing a large field of view, unlike reflective LCOS microdisplays. This results in less eye fatigue and makes it relatively easy to position the imaging systems to the eye.

Low power consumption for improved battery life and longer system life. OLEDs emit light rather than transmitting it, so no power-consuming backlight or frontlight, as required for liquid crystal displays, is required. OLEDs can be energy efficient because of their high efficiency light generation. Power efficiency can be high in OLED displays because they require only low voltage switching (2-5 volts is typical, depending on the mode of operation) and less display-external electronics. Furthermore, OLEDs conserve power by powering only those pixels that are on while liquid crystal on silicon requires light at all pixels all the time. Most optical systems used for our OLEDs are highly efficient, permitting over 80% of the light to reach the eye, whereas reflective technologies such as liquid crystal on silicon require multiple

beam splitters to get light to the display, and then into the optical system. This results in typically less than 25% light throughput efficiency in reflective microdisplay systems. Most important, we do not need a power-hungry video frame buffer, as required in liquid crystal frame-sequential color systems. Battery life can therefore be long. A stereovision headset display using our SVGA-3D displays can run off the USB port of a computer and could operate for over 5 hours using three AAA batteries.

Long operating life. Most of our potential customers require 5,000 to 10,000 hours of operation to half-life. Half-life refers to the time it takes the operating display to reach half of its initial brightness. We believe our OLED display technology already exceeds these numbers for most of our consumer product applications. There does not appear to be a fundamental limit to significant life increases. Test devices in our research laboratory have exceeded an extrapolated 100,000 hours to half-life.

High brightness for improved viewing. Because OLEDs have electrical

characteristics similar to those of semiconductor diodes, they can run at very high brightness with only a moderate increase in voltage. This will enable us to build extremely bright displays using drive voltages of 24 volts or less. This feature can be of great value to military applications, where there is a need to see the computer image overlaid onto brightly lit real-life backgrounds such as desert sand, water reflections or sunlit clouds. The OLED can be operated over a large luminance range without loss of gray level control, permitting the displays to be used in a range of dark environments to very bright ambient applications. Since military simulation and situation awareness applications, including night vision, typically require large fields of view, the OLED's Lambertian optical characteristics make it an excellent choice.

High-speed performance resulting in clear video images. The OLEDs switch much more rapidly than liquid crystals or most cathode ray tubes (CRTs). This results in smear-free video rate imagery and provides improved image quality for DVD playback applications. This eliminates visible image smear and makes practicable three-dimensional stereo imaging using a split frame rate. This advantage of our OLED-on-silicon is very important for 3-D stereovision gaming applications.

Flicker-free; no color breakup. Because the OLED-on-silicon stores brightness and color information at each pixel, the display can be run with no noticeable flicker and no color sequential breakup, even at low refresh rates. A lower refresh rate not only helps reduce power, it also facilitates system integration. Color sequential breakup occurs in systems such as liquid crystal on silicon and some liquid crystal display microdisplays when red, green and blue frames are sequentially imaged in time for the eye to combine. Since the different color screens occur at different times, movement of the eye due to vibration or just fast pupil movement can create color bands at each dark-light edge, making the image unpleasant to view and making text difficult to read. For example, the liquid crystal on silicon display needs to run at least three times the "normal" frame rate or speed to produce color sequential images, which wastes power and makes for a difficult technological challenge as display resolutions increase.

Wide operating temperature range. Our OLEDs offer much less temperature sensitivity at both high and low temperatures than LCDs. LCDs are sluggish or

non-operative much below freezing unless heaters are added and lose contrast above 50 degrees C, while our OLEDs turn on instantly and can operate between -55 degrees C and 130 degrees C. We specify a smaller range on most products to accommodate low cost packaging. This is an important characteristic for many portable products that may be used outdoors in many varying environmental conditions. It is especially important for military customers. Insensitivity to vibration, shock, and pressure are also important environmental control attributes.

Complementary Lens and System Technology

We have developed a wide range of technologies which complement our core OLED and lens technologies and which will enhance our competitive position in the microdisplay and head-wearable display markets. These include:

Lens technology: We have developed advanced lens technology for microdisplays and head-wearable display systems and hold key patents in these areas. Our lens technology permits our OLED-on-silicon microdisplays to provide large field of view images that can be viewed for extended periods with reduced eye-fatigue.

We believe that the key advantages of our lens technology include:

-- Can be very low cost, with minimal assembly. A one piece, molded plastic optic attached to the microdisplay can serve many consumer end-product markets. Since our process is plastic molding, our per unit production costs are low;

-- Allows a compact and lightweight lens system that can greatly magnify a microdisplay to produce a large field of view;

-- Can use single-piece molded microdisplay lenses to permit high light throughput making the display image brighter or permitting the use of less power for an acceptable brightness;

-- Can be designed to provide focusing to enable users with various eyesight qualities to view images clearly; and

-- Can optionally provide focal plane adjustment for simultaneous focusing of computer images and real world objects. For example, this characteristic is beneficial for word processing or spreadsheet applications where a person is typing data in from reference material. This feature can make it easier for people with moderately poor accommodation to use a head-wearable display as a portable computer-viewing accessory.

Head-wearable display technology. We have developed ergonomic technologies that make head-wearable displays easier to use in a wide variety of applications. For example, the use of our patented rotatable EyeblockerTM provides a sharp image without requiring most users to squint. The Eyeblocker can also be moved to create an effective see-through appearance. To our knowledge, we have made the lightest weight, high-resolution head-wearable display with an over 35(Degree) diagonal field of view ever publicly demonstrated.

Wireless video technology. We have developed power efficient, miniature, video and stereo sound, radio frequency transmitter-receiver technology as part of a government program. This can allow consumers to watch wireless high quality video from most locations in their home using existing entertainment (e.g., DVD or cable/satellite systems) or data systems. We expect this capability to greatly increase the available market and demand for video and data head-wearable displays and we are considering this technology for use in low cost consumer applications. Commercialization of this technology will be considered in 2003.

Our OLED-related Technological Milestones:

We believe that we have made significant breakthroughs in OLED-on-silicon microdisplay technology and that the following represent key milestones:

Date	Milestone
May 1998	We publicly demonstrated the world's first OLED-on-silicon integrated circuit video graphics array video (monochrome VGA, 640x480 pixels). This showed that OLED microdisplays could be built directly on silicon integrated circuits.
February 1999	We publicly demonstrated the world's first

	up-emitting full color OLED-on-silicon video. (Low resolution QVGA, 320x240 pixels using color filters). This showed that color video capable OLEDs could be built on silicon integrated circuits using color filters.
May 2000	We publicly demonstrated the world's highest efficiency, bright white OLED-on-silicon publicly displayed to date. We also demonstrated the world's highest resolution OLED display publicly displayed to date (1280x1024 pixels) using a new white light emitter in an OLED-on-silicon display. This showed that our OLEDs-on-silicon could provide a good quality bright white image and could generate high resolution moving images with quality gray scale control.
September 2000	We publicly demonstrated the world's first full-color active matrix OLED-on-silicon microdisplay (VGA resolution, 640x480 pixels). The display used color filters built directly on top of the OLED display and incorporated our white light organic light emitting diodes technology. This showed the first near product-quality color moving images using OLED-on-silicon technology.
October 2000	We publicly previewed the world's highest resolution super video graphics array (SVGA+, 852 x 3 x 600 pixels, over 1.5 million color elements) which was the first active matrix OLED-on-silicon microdisplay designed for consumer applications ever publicly displayed. The display was shown in white monochrome, but the integrated circuit design is color compatible.

January 2001	We publicly demonstrated, with IBM, the world's first direct view OLED-on-silicon microdisplay, which was incorporated into a computer watch which used the Linux operation system. The microdisplay has higher resolution and higher contrast than other similarly sized wrist-worn multi-function displays.
May 2001	We publicly demonstrated our first commercial product display, a 852 x 600 (SVGA+) full color microdisplay with 15 (mu)m pixels at the Society for Information Display International Symposium. This coincided with initiation of sample deliveries.
October 2001	We publicly demonstrated the world's first microdisplay with built-in stereovision capability (SVGA-3D) in a binocular 3D headset in Yokohama, Japan.
February 2002	We made initial commercial shipments of our SVGA-3D microdisplay.

Sales and Marketing

Current Status:

We are shipping initial quantities of our first two commercial microdisplay products. Our SVGA+ resolution OLED microdisplay (1.53 million picture elements) was specifically designed to meet the needs of several military, industrial, and medical customers based on marketing information obtained prior to the design phase of the display and was first offered for sampling in April 2001. Our stereovision-capable SVGA-3D microdisplay (1.44 million picture elements) was designed with the input of multiple customers to principally target the mobile personal computer (PC) and PC games markets, and was first shipped in February 2002. We are currently far along in developing a military and industrial oriented ultra-high-luminance SXGA resolution integrated circuit (3.9 million picture elements) that is due for completion in 2002, and we have shipped limited quantities of prototypes of our eGlass headsets. (See "Our Products").

Near term sales efforts have been focused on our military, industrial, and media customers. Our primary production orders and design wins to date have been for the SVGA+ display. To date, we have shipped products and evaluation kits to more than 60 OEM customers. OEM evaluation and product design cycles may take from 6 months to 24 months. Some of our initial customers have completed their initial evaluation cycle and we are now receiving follow-on orders and notification of product purchase decisions. Several customers have indicated their intent to incorporate potentially high volumes of our microdisplays into consumer products during 2002 through 2004. We have also received notification that our microdisplays will be used as components in version 1.0 of the US Army Land Warrior program and in the US Air Force Joint Strike Fighter program.

General Sales and Marketing Effort:

We primarily provide display components and MicroviewerTM display-optic modules for OEMs to incorporate into their branded products and sell through their well-established distribution channels. In addition, we market head-wearable displays directly to various vertical market channels, such as medical, industrial, and government customers. A typical buyer is a manufacturer of a product requiring a specific resolution of visual display or viewfinder for insertion into a product such as a portable DVD headset, a PC-gaming headset, or an instrument.

As a market-driven company, we assess customer needs both quantitatively and qualitatively, through market research and direct communications. Because our microdisplays are the main functional component that defines many of our customers' end products, we work closely with potential customers to define our products to optimize the final design, typically on an engineer-to-engineer basis.

We identify companies with end products and applications for which we believe that our products will provide a system level solution and for which our products can be a key differentiator. We target both market leaders and select early adopter companies; their acceptance validates our technology and approach in the market. We believe successful marketing will require relationships with recognized consumer brand companies.

OEMs develop designs to enable them to develop products for their own target markets. An OEM design cycle typically requires between 6 and 24 months, depending on the uniqueness of the market and the complexity of the end product. New product development may require several design iterations prior to commercialization.

We design our products to meet individual customer requirements, but look

for ways to leverage our design and development costs by incorporating multiple customers' requirements into each product. We work closely with potential customers to maximize the probability that our microdisplay and lenses products being designed will match the anticipated future needs of the customers. Our introductory consumer product entry, our SVGA+, is a prime example of a market-driven product design. After determining the resolution requirements of key potential customers via direct market studies, we incorporated 52 more imaging columns than a standard SVGA display. These added columns made it possible for the SVGA+ display to interface to wide-screen format DVD players using all the data from the player (852 x 480 pixels) in a 16:9 wide screen entertainment format while also having the capability to interface to the standard SVGA (800 x 600 pixels) analog output of many portable computers.

We incorporate product evaluation feedback into subsequent designs. We gain a detailed understanding of competitive strengths and weaknesses of our technology and product designs as well as that of alternate technologies.

To date, we have chosen to focus our efforts on product development and have maintained a relatively limited marketing capability. As we ramp up production of our products and expand our markets, we plan to hire additional technical marketing and customer support staff to increase our coverage of consumer, industrial, and military market segments. The marketing staff will identify new customer needs, and help insure that the integrated circuit and electronics designers correctly understand the customers' product specification and delivery needs. We expect that as the market for microdisplays matures and more universal embedded systems become commonplace, the role of traditional OEM component sales will become more important. Our management will continually reassess the success of our marketing and sales methodology to best meet the needs of our customers.

Research and Development

OLED technology is a relatively new technology that has considerable room for substantial improvements in luminance, life, power efficiency, voltage swing, design compactness, and many other parameters. We also anticipate that achieving reductions in manufacturing costs will require new technology developments. We anticipate that improving the performance, capability and cost of our products will provide an important competitive advantage in our fast moving, high technology marketplace. Past and current research activities include development of improved OLED and display device structures, developing and/or evaluating new materials (including the synthesis of new organic molecules), manufacturing equipment and process development, electronics design methodologies and new circuits and the development of new lenses and related systems. During 2002 we plan to focus primarily on near-term product development projects to meet near-term customer needs during 2002. However, in order to improve customer satisfaction and simultaneously maximize our margins, as well as to maintain competitive technology advantages, we believe that it is important to continue to engage in long-term research and development. During the past three years, we have spent approximately $38.9 million on research and

non-operative much below approximately $11.3 million; in 2000, we spent approximately $13.3 million; and in 2001, we spent approximately $14.3 million on research and development. During the same three-year period, we received $4.2 million in funding from US government under research and development cost sharing arrangements.

External relationships play an important role in our research and development efforts. Suppliers, equipment vendors, government organizations,

contract research groups, external design companies, customer and corporate partners, consortia, and university relationships all enhance the overall research and development effort and bring us new ideas (See "Strategic Relationships").

We received a Phase III Small Business Innovation Research grant from the US Air Force, providing $17.5 million to fund research involving the development of high-resolution active matrix organic light emitting diode microdisplays for incorporation into military head-mounted displays. We also work with Eastman Kodak and Honeywell in an Air Force-sponsored dual applications research program to develop ultra-high luminance capable and high temperature compatible OLEDs and with the US Army Night Vision Lab to develop active matrix organic light emitting diode technology.

Manufacturing Facilities

We are located at IBM's Microelectronics Division facility, known as the Hudson Valley Research Park, located about 70 miles north of New York City in Hopewell Junction, New York. We lease approximately 45,000 square feet of space housing our own equipment for OLED microdisplay fabrication, and for research and development plus additional space for assembly and administrative offices. We believe that our lease agreement with IBM for a 16,300 square foot class 10 clean room space, along with additional, lower level clean room space, and the associated acquisition of substantial amounts of advanced manufacturing equipment at a favorable cost, represents a substantial asset and competitive advantage. At this time, we owe to IBM previously unpaid lease payments and we have set aside funds to make such payments in order to maintain our lease. Our lease runs until 2004 and we have the option to then renew it on the same terms for five additional one-year terms.

Facilities services provided by IBM include our cleanroom, pure gases, high purity de-ionized water, compressed air, chilled water systems, and waste disposal support. This infrastructure provided by our lease with IBM provides us with many of the resources of a larger corporation without the added overhead costs. It further allows us to focus our resources more efficiently on our product development and manufacturing goals. We are currently staffing for a two-shift/5 day per week operation. We believe that our facility is capable of producing over 50,000 SVGA+ or SVGA-3D displays per month once we are manufacturing around the clock (24 hour/7-days per week) with a fully loaded manufacturing line.

We lease additional non-cleanroom facilities for chemical mixing, cleaning, chemical systems, and glass/silicon cutting. OLED chemicals can be purified in our facility with our equipment, permitting the company to evaluate new chemicals in pilot production that are not yet available in suitable purity for OLED applications on the market.

Our display fabrication process starts with the silicon wafer, which is manufactured by a semiconductor foundry using conventional CMOS process. After a device is designed by a combination of internal and external designers with customer participation, we outsource wafer fabrication.

Our manufacturing process for OLED-on-silicon microdisplays has three main components: organic film deposition, organic film encapsulation (also known as sealing), and color filter processing. All steps are performed in an automated, hands-free environment suitable for high volume throughput. An automated cluster tool provides all OLED deposition steps in a highly controlled environment that is the centerpiece of our OLED fabrication. After wafer processing, each part is

inspected using an automated inspection system, prior to shipment. We have electrical and optical instrumentation required to characterize the performance of our displays including photometric and color coordinate analysis. We are also equipped for integrated circuit and electronics design and display testing.

Our lenses and system development operation at Virtual Vision operates out of a leased facility in Redmond, Washington. The current facilities include design stations, computer-aided plastics milling and preparations, lenses fabrication, product assembly, and office space. The facilities are well suited for designing and building limited volume prototypes and industrial or government products. We plan to outsource high volume head-wearable display production to low cost plastics, lenses, and assembly manufacturers, including manufacturers in Asia.

We believe that manufacturing efficiency is an important factor for success in the consumer markets. We believe that high yield and maximum utilization of our equipment set will be key for profitability in 2002 and 2003. We believe that all of the main components for manufacturing success are in place, but we require additional capital to: (1) staff and train employees for round the clock operation, (2) build suitable inventory of integrated circuits and other raw materials, and (3) properly maintain and upgrade the equipment set. The equipment required for initial profitable production is in place. Some equipment will be added when our production volume increases. We will ramp production primarily by adding multi-shift staff and increasing inventory.

We intend to outsource certain capital-intensive portions of microdisplay production to minimize both our costs and time to market. Joint ventures will be considered for higher quantity OLED production. We currently outsource integrated circuit fabrication while retaining the OLED application and OLED sealing processes in-house. We believe that we have a core competency and manufacturing expertise in OLED application and sealing, and that retaining these key processes in-house will facilitate protection of proprietary technology and process know-how which provide us with a competitive advantage. This strategy will also enhance our ability to continue to optimize and customize processes and devices to meet customer needs.

Intellectual Property

We have developed a significant intellectual property portfolio of patents, trade secrets and know-how, supported by our license from Eastman Kodak and our current patent portfolio.

Our license from Eastman Kodak gives us the right to use in miniature displays a portfolio of more than 75 patents in organic light emitting diode and optics technology, some of which are fundamental. Our agreement with Eastman Kodak provides for perpetual access to the OLED technology for our OLED-on-silicon applications, provided we remain active in the field and meet our contractual requirements to Eastman Kodak. In our relationship with Eastman Kodak, we share information regarding improvements in the OLED technology and materials generated internally, except where restricted by agreements with other parties. (See "Strategic Relationships").

We also generate intellectual property as a result of our internal research and development activities. We currently have a portfolio of 64 issued patents, approximately 50 patents filed, and additional patent applications in process.

Our patents and patent applications cover a wide range of materials, device structures, processes, and fabrication techniques, such as methods of

fabricating full color OLEDs. We believe that our patent applications relating to up-emitting structures on opaque substrates such as silicon wafers, which are critical for OLED microdisplays, and applications relating to the hermetic sealing of such structures are particularly important. Our patents are concentrated in the following areas:

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

We believe that protection of these key enabling technologies and components to be a fundamental aspect of our strategy to penetrate diverse markets with unique products. We intend to continue to develop our portfolio of proprietary and patented technologies at the design, materials, process, and system levels.

We also rely on proprietary technology, trade secrets, and know-how which are not patented. To protect our rights in these areas, we require all employees, and where appropriate, contractors, consultants, advisors and collaborators to enter into confidentiality and noncompetition agreements. There can be no assurance, however, that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information.

We believe that our intellectual property portfolio, coupled with our strategic relationships and accumulated experience in the OLED field gives us an advantage over potential competitors.

Competition

We may face competition in the OLED and microdisplay industry from a variety of companies and technologies. We believe that our key competition will come from liquid crystal on silicon microdisplays (LCOS), also known as reflective liquid crystal displays. While we believe that OLED-on-silicon provides comparatively lower lenses cost, larger apparent image size, reduced electronics cost and complexity, enhanced color, and improved power efficiency advantages over liquid crystal on silicon microdisplays, there is no assurance that these benefits will be realized or that liquid crystal on silicon manufacturers will not suitably improve these parameters. Color liquid crystal on silicon displays are currently being sampled, and may be in higher volume production a year or more earlier than color OLED displays, which could have a significant detrimental effect on our market opportunity. Companies pursuing liquid crystal on silicon technology include Microdisplay Corporation, Three-Five Systems, and Spatial Light among others, although most of the companies are primarily focusing on projection microdisplays which do not compete directly with the company. In certain markets, we may also face competition from developers of transmissive liquid crystal displays, such as those developed by Kopin, or laser scanning systems, such as those developed by Microvision Corporation.

To our knowledge, the only other company that has publicly stated plans to develop OLED microdisplays for near-eye applications is MicroEmissive Displays (Britain, a start-up company). We may also compete with potential licensees of

Universal Display Corporation, Cambridge Display Corporation, and Uniax Corporation, each of which license OLED technology portfolios. Even though we could potentially license technology from these developers, potential competitors could also obtain licenses and may do so at more favorable royalty rates. However, should they decide to embark on developing microdisplays on silicon, we believe that our progress to date in this area gives us a substantial head start.

Our microdisplays and head-wearable display systems may face competition on a price and performance basis from major manufacturers such as Sony and Seiko Epson. However, these companies use first generation liquid crystal on polysilicon technology and therefore, we believe that they may incorporate our technology into their products when it becomes available.

Employees

As of February 15, 2002, we had a total of 34 employees. Prior to our work force reduction on December 3, 2001, we had a total of 91 employees. None of our employees are represented by a labor union. We have not experienced any work stoppages and consider our relations with our employees to be good.

ITEM 2: PROPERTIES

Our principal executive offices are located at: 2070 Route 52, Hopewell Junction, New York 12533. We lease approximately 45,000 square feet of space, all of which is located in the same industrial park. Approximately 35,000 square feet of space houses our own equipment for OLED microdisplay fabrication, and for research and development plus additional space for assembly operations and storage. Approximately 10,000 square feet of space is used for administrative offices. We are required to pay $230,000 to IBM by April 30, 2002 in order to avoid default proceedings. Our lease runs until 2004 and we have the option to then renew it on the same terms for an additional five, one-year terms.

Our lenses and system development operation at Virtual Vision lease approximately 11,000 square feet of space in Redmond, Washington. The lease for this facility runs until June 2002.

eMagin Corporation's telephone number is (845) 892-1900. Our website address is www.eMagin.com.

ITEM 3: Legal Proceedings

None.

Potential Liabilities: We have liabilities for approximately $3.5 million for unpaid bills, contracts, and other liabilities. We believe that some of these liabilities are valid and payable, and others may be negotiated or are not wholly valid. It is possible that we may be required to pay this entire amount along with additional legal and defense costs or penalties.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders during the fourth quarter of the Fiscal Year covered by this Report.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock has been traded on the American Stock Exchange under the symbol "EMA" since March 17, 2000. From November 18, 1997 to March 16, 2000 our common stock had been quoted on the OTC Bulletin Board under our prior name "Fashion Dynamics Corp." under the symbol "FSHD." Prior to January 2000, there had been no public trading of FSHD. The table below sets forth, for the periods indicated, the high and low closing prices per share of the common stock as reported on the American Stock Exchange and the OTC Bulletin Board. With respect to OTC Bulletin Board quotes, these prices reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

	High	Low
2001		
First Quarter	7.98	2.50
Second Quarter	4.45	2.10
Third Quarter	2.60	1.10
Fourth Quarter	1.65	0.27

As of March 1, 2002, there were 25,171,183 shares of common stock outstanding.

2000		
First Quarter through March 16, 2000	20.62	5.93
Second Quarter since March 17, 2000	22.93	19.50
Second Quarter	20.25	8.50
Third Quarter	13.00	7.87
Fourth Quarter	9.75	2.04

As of December 31, 2001 and March 29, 2002, there were approximately 425 and 450 stockholders of record of our common stock, respectively. This does not reflect those shares held beneficially or those shares held in "street" name. In the second quarter of 2001 in preparation of our proxy mailing, it was determined that we had approximately 11,000 shareholders of which the vast majority were held in the street name.

We have not paid cash dividends in the past, nor do we expect to pay cash dividends for the foreseeable future. We anticipate that earnings, if any, will be retained for the development of our business.

Recent Issuances Of Unregistered Securities.

We entered into a securities purchase agreement dated as of September 18, 2001 with SK Corporation, an affiliate of SK Group of Korea, providing for the

investment by SK Corporation of $3,000,000 in eMagin. For its $3 million investment, SK received (i) 4% Series A Convertible Debentures of the Company in an aggregate principal amount of $3,000,000, and (ii) warrants exercisable for a period of three (3) years to purchase 205,479 shares of common stock of eMagin. Interest is payable on the debentures at a rate of 4% per annum and, at the option of the Company, may be paid through the delivery of shares of common stock of the Company (registered pursuant to the registration rights agreement described below) in lieu of cash interest payments. Subject to certain limitations, the debentures may be converted, at the option of the holder, in whole or in part, into our common shares with a conversion price equal to 105%

of the volume weighted average of the closing prices of our shares as reported on the American Stock Exchange for the ten (10) trading days immediately preceding the closing date of the transaction. The warrants have an exercise price of $1.46. The total amount of our shares potentially issuable pursuant to the conversion feature and the warrants is 2,909,229 shares. Concurrently with the securities purchase agreement, we also entered into a registration rights agreement with SK that requires us to register the shares issuable pursuant to a conversion of the debentures, payment of interest thereon, or an exercise of the warrants. The registration rights agreement requires us to use our reasonable best efforts to file the registration statement with the Securities and Exchange Commission (the "Commission") no later than 270 days after the issuance and sale of the debentures and warrants. We relied on Section 4(2) of the Securities Act of 1933 (the "Securities Act") and on Rule 506 of Regulation D in issuing the securities without registering the offering under the Securities Act.

On August 20, 2001, we entered into a Note Purchase Agreement with the Travelers Insurance Company whereby Travelers agreed to lend us $1,000,000 in exchange for a $1,000,000, 9.25% per annum note due on May 20, 2002. The note is convertible upon the closing by us of a bona fide sale of convertible debt securities in which we receive at least $5 million prior to the maturity date. Upon such conversion, the aggregate principal amount and accrued interest of the note shall convert into the amount of convertible debt securities and other securities that we would issue to an investor for such amount pursuant to such bona fide sale. We may prepay the note in full at any time prior to the maturity date without penalty. The agreement also provided that if the note is not repaid or converted in accordance with its terms at the end of each week after the closing date of the transaction (each such date, a "Warrant Issue Date") then we would, at the end of each such week, issue to Travelers a three-year warrant to purchase shares of eMagin's common stock for an aggregate exercise price of $50,000, at a price per share equal to 106% of the volume weighted average price of the common stock on the American Stock Exchange for the 20 trading days immediately prior to that Warrant Issue Date. The note also provides that upon the closing of a sale, prior to the note's maturity date, of convertible debt securities of the Company in which we receive gross proceeds of at least $5 million, the aggregate principal amount of and accrued interest on the note shall convert into the amount of convertible debt securities and other securities of eMagin that would be issued by us to an investor of such amount in that round of financing. Traveler's subsequently agreed to cap the warrants issuable under the agreement to 451,842 shares of our common stock, all of which have been issued. We relied on Section 4(2) of the Securities Act and on Rule 506 of Regulation D in issuing the securities without registering the offering under the Securities Act.

We entered into a Common Stock Purchase Agreement dated as of October 18, 2001 with a developer and manufacturer (the "Manufacturer") of certain materials

used in our products and a concurrently executed Development and Supply Agreement, also with the Manufacturer. Under the Common Stock Purchase Agreement, Manufacturer purchased approximately 86,038 restricted shares of our common stock for a purchase price equal to $126,475 dollars, based on a purchase price per share calculated as the average sale price of a common share of our stock on the American Stock Exchange for a twenty day trading period ending on the day preceding the closing of the transaction. The purchase price was received by us by the shipment to us of product by the Manufacturer and by the transfer to us by the Manufacturer of certain rights to designs and related technology and materials as described in the Development and Supply Agreement. We relied on Section 4(2) and on Regulation S of the Securities Act in issuing the securities without registering the offering under the Securities Act.

On November 27, 2001, we entered into a Secured Note Purchase Agreement whereby five accredited investors agreed to lend us an aggregate of $875,000 in exchange for (i) 9.00% per annum Secured Convertible Promissory Notes in an aggregate principal amount of $875,000 and (ii) warrants exercisable for a period of three (3) years to purchase up to an aggregate of 359,589 shares of common stock of eMagin. The terms of the outstanding notes and warrants are described further below.

On January 14, 2002, we entered into additional agreements to facilitate: (i) an additional funding of $1,000,000 to eMagin by a private investor under the Secured Note Purchase Agreement, (ii) the repayment (the "Repayment") in full using the proceeds of the additional funding of three secured convertible notes held by certain initial investors under the Secured Note Purchase Agreement with an aggregate principal amount of $250,000 (such notes then in default pursuant to a monthly expenditure requirement contained therein), and (iii) a repricing of both the conversion rate of all of the outstanding Secured Convertible Notes issued under the Secured Note Purchase Agreement into our common stock and the exercise price of the warrants held by certain initial investors not subject to the Repayment (the "Continuing Investors") and the issuance of certain additional warrants to the Continuing Investors in return for their consent to certain amendments and waivers. In return for the additional funding of $1,000,000, the private investor received two additional Secured Convertible Promissory Notes, with an aggregate principal amount of $300,000 and $700,000, respectively, and related warrants, each issued pursuant to the terms of the Secured Note Purchase Agreement. The full amount of the outstanding secured convertible notes issued under the Secured Note Purchase Agreement, after giving effect to the January 2002 transactions, have an aggregate principal amount of $1,625,000, and are all secured by a general security interest in the assets of the Company.

The outstanding Secured Convertible Promissory Notes are due August 30, 2002 and bear interest at 9% per annum (payable at maturity or on the effective date of an early termination). Pursuant to the January 2002 transactions, the conversion terms of the outstanding secured notes were adjusted so that the notes are convertible into our common stock at a rate of $0.5264 per share. The conversion of the notes into eMagin common stock is mandatory upon certain conditions including the completion of a next round of financing by the Company of convertible debt securities or equity securities in a minimum amount of $10 million. The holders of the notes may also convert, at their option, the notes and accrued interest into our common stock. Upon a change of control event, we may also call and purchase the notes at a purchase price equal to 250% of the principal amount plus accrued interest. If we do not exercise this call right,

the holders may put the notes to the Company at similar pricing. Pursuant to the terms of the January 2002 transactions, the exercise price of the outstanding three year warrants held by the Continuing Investors was adjusted to $0.5469 per share. The Initial Investors whose secured convertible notes were cancelled pursuant to the Repayment retained the three-year warrants previously issued to them under the Purchase Agreement, which have an exercise price of $1.67 per share. All of the outstanding warrants issued under the Secured Note Purchase Agreement, including those issued pursuant to the January 2002 transactions described above, are exercisable for an aggregate of up to 1,954,944 shares of our common stock. We relied on Section 4(2) of the Securities Act and on Rule 506 of Regulation D in issuing the securities without registering the offering under the Securities Act.

Pursuant to the issuance of the notes and warrants under the Secured Note

Purchase Agreement, we also entered into a registration rights agreement providing for the registration of shares to be issued pursuant to a conversion of the Secured Convertible Promissory Notes and the shares to be issued pursuant to the exercise of the warrants issued thereunder. The registration rights agreement required us to file a registration statement no later than 90 days after the issuance of the notes and warrants at the initial closing. We are currently in default of this filing requirement, however management is confident that the holders of such rights are amenable to waiving and extending the time period for the filing of the registration statement. Pursuant to a failure by us to use our reasonable best efforts to cause the registration statement to be declared effective by the Commission within six months of the date of the issuance of the Secured Convertible Promissory Notes and warrants, the registration rights agreement provides for the payment of liquidated damages at a rate of five percent (5%) per month (calculated to the nearest calendar day) of the value of the registrable securities not so declared effective until such registrable securities shall be declared effective.

We entered into a Securities Purchase Agreement dated as of February 27, 2002 providing for the issuance and sale to eight accredited investors of an aggregate of (i) 3,617,128 restricted shares of our common stock, and (ii) warrants exercisable for a period of three (3) years for an aggregate of 1,446,852 shares of our common stock. The warrants have an exercise price of $0.7542. For the issuance of the shares and warrants, we received an aggregate gross proceeds of $2,500,519.56, with each share purchased at a purchase price of $.6913, equal to 110% of the daily volume weighted average closing price per share of our common stock on the American Stock Exchange for a prescribed five trading day period. In connection with the sale of the shares and warrants, we also entered into a registration rights agreement with the investors to register for resale the shares the investors bought in the transaction and the shares to be issued pursuant to an exercise of the warrants. Under the terms of the registration rights agreement, if the registration statement covering the resale of the shares is not declared effective by the Commission within ninety days (or one hundred and fifty days in the case of a "full review" by the Commission) of the date of the issuance and sale of the purchased shares and the warrants, eMagin will be required to pay to each investor an amount equal to one percent (1%) per month of (A) the purchase price paid by such investor for the purchased securities, and (B) the value of any outstanding warrants held by such investor until such registration default no longer exists. The accrued penalties payable for a registration default under the registration rights agreement may be paid in our common shares provided such shares are registered under the Securities Act. The issuance of the shares and the warrants was exempt from the

registration requirements of the Securities Act pursuant to Section 4(2) of such Securities Act and Regulation D promulgated thereunder.

On March 4, 2002, we entered into a common stock purchase agreement and related documents with Northwind Associates, Inc., a Cayman Islands corporation (the "Investor"), pursuant to which we may receive in periodic draw downs at our option and subject to the terms and conditions of the agreement, up to $15,000,000 in equity financing (the "Equity Line") over a three year period. The aggregate amount of the Equity Line may increase to $20,000,000 provided certain additional conditions regarding our share price, trading volume and market capitalization are met. The initial closing of the agreement occurred on Friday, March 22, 2002. Our right to draw down on the Equity Line is subject to our registering for resale (and the continuing effectiveness of such registration) with the Commission the shares of eMagin common stock issuable pursuant to the Equity Line and is also subject to certain other significant conditions, including limits as to the maximum and minimum draw down amounts as

specified in the common stock purchase agreement. The maximum investment amount for any draw down is the lesser of (i) $5,000,000, and (ii) 15% of the volume weighted average price for our common stock (as reported by the American Stock Exchange) for the 30 trading days immediately prior to the applicable commencement date for such draw down multiplied by the total aggregate trading volume in respect of our common stock for such period. Pursuant to a draw down, the Investor will purchase our shares at a discount to the price of our common shares on the American Stock Exchange. More specifically, the discounted purchase price to be paid by the Investor under the Equity Line will generally equal (i) 88% of the daily volume weighted average price of our common stock on the American Stock Exchange for a prescribed 10 trading day period provided that the such stock price is less than $4.00 per share at the time of determination, (ii) 90% should such stock price at the time of determination exceed $4.00 per share, and (iii) 92% should such stock price at the time of determination exceed $6.00 per share. The discounted purchase price may be reduced by an additional 3% pursuant to certain special conditions as set forth in the agreement. The amount of our shares issued pursuant to draw downs on the Equity Line is also limited to 19.9% of the issued and outstanding common stock (unless stockholder approval of any excess amount is received) and no draw down shall be made to the extent that it would result in the Investor and its affiliates beneficially owning more than 9.9% of our outstanding common stock. The agreement also limits our ability to enter into any other equity line type of financing during the term of the agreement and provides to the Investor a right of first refusal for subsequent sales by the Company of its securities.

Additionally, in consideration for the Investor's purchase commitment under the Equity Line and certain costs associated therewith, we issued to the Investor 30,000 unregistered shares of eMagin's common stock and warrants to purchase up to 150,000 shares of our common stock at an exercise price equal to 115% of the daily volume weighted average price of the common stock for the fifteen trading days preceding the date of the delivery of the warrant by the Company or $0.8731. Each warrant is exercisable for a period of three years commencing six months from the date of their delivery by the Company. The issuance of the shares and the warrants was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of such Securities Act and Regulation D promulgated thereunder.

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In connection with the Equity Line, we also entered into a registration rights agreement dated as of March 4, 2002 with the Investor that requires the Company to file, obtain and maintain the effectiveness of a registration statement on an appropriate form with the Commission in order to register the sale and public resale of shares of the common stock acquired by the Investor under the agreement and upon the exercise of the warrants. Under the terms of the registration rights agreement, the Company must file such registration statement within sixty days of the date of the agreement.

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ITEM 6: SELECTED FINANCIAL DATA

You should read the following selected financial data together with Item 7 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements including accompanying notes, and other financial information, all of which are included elsewhere in this report. The selected financial data for the fiscal years ended December 31, 1997, 1998, 1999, 2000, and 2001 are derived from our consolidated financial

statements, which have been audited by Arthur Andersen LLP, independent auditors. The historical results are not necessarily indicative of results to be expected for any future period.

Prior to the acquisition of FED Corporation, Fashion Dynamics Corporation had no active business operations. Management believes that the comparison of eMagin's financial results to that of the operating entity (FED Corporation) provides the most meaningful comparative information to the reader. Accordingly, the comparative information that follows, reflects the operating results of FED Corporation for all periods prior to the merger and it should be read in conjunction with the consolidated financial statements and notes thereto of this Form 10-K.

	Fiscal Year Ended December 31,				
	1997	1998	1999	2000(1)	
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Statement of Operations Data:					
Revenues:					
Net Contract Revenues	$3,626	$6,154	$1,895	$3,126	$5
Product Sales					
Total revenue	3,626	6,154	1,895	3,126	$5
Costs and Expenses:					
Research and Development (net of funding under cost sharing arrangements)	5,234	10,250	10,171	11,815	12
Non-cash expense for conversion of debt to common stock	--	--	1,917	--	
Non-cash stock-based compensation	--	--	--	10,319	2
Amortization of purchase intangibles	--	--	--	20,932	17
Write-down of goodwill and purchased intangibles	--	--	--	--	32
Acquired in-process research and development	--	--	--	12,820	
General and Administrative	2,015	3,514	5,203	6,145	7
Loss from operations	(3,623)	(7,610)	(15,396)	(58,905)	(67
Other income (expense)	(107)	(122)	(404)	(2,616)	(1
Net loss	(3,730)	(7,732)	(15,800)	(61,521)	(68

	Fiscal Year Ended December 31,				
	1997	1998	1999	2000(1)	
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				

Basic and diluted net loss per share	$(.69)	$(1.42)	$(6.04)	$(2.78)	$(
Weighted average shares outstanding used in basic and diluted per-share calculation	5,437,537	5,450,293	2,614,743	22,144,904	25,1

(1) The summary financial data for the year ended December 31, 2000 represent a pro forma presentation of the results for this period, containing the operating results of eMagin Corporation for the year ended December 31, 2000, with the operating results of FED Corporation for the period from January 1, 2000 through March 15, 2000, in order to present operating results for the year period for comparative purposes.

	As of December 31				
	1997	1998	1999	2000	2
	(IN THOUSANDS)				
Working capital (deficit)	$ 2,888	$ 3,371	$(3,295)	$ 6,243	$(
Total assets	6,906	11,163	5,038	62,549	
Current maturities of long-term debt	--	62	269	313	
Short-term debt	--	--	2,127	--	
Total shareholders' equity	$ 1,016	$ 4,693	$60	$59,184	$(

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion should be read together with our financial statements and the notes to those statements and other financial information appearing elsewhere in this report. Our fiscal year ends December 31.

Overview

eMagin Corporation designs, develops, and markets OLED (organic light emitting diode)-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 a virtual image that appears comparable to that of a computer monitor or a large-screen television. We shipped initial samples of our first commercial microdisplay product in March 2001. We are now accepting orders for larger quantities of our first microdisplay product and shipping samples of our second commercial microdisplay product. 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.

Company History

eMagin Corporation was originally incorporated as Fashion Dynamics

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

Under the terms of the merger agreement that facilitated our acquisition of FED Corporation, Fashion Dynamics Corporation issued approximately 10.5 million shares of its common stock to FED Corporation shareholders and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of a simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Under the purchase method of accounting, the assets and liabilities were recorded based upon their fair values at the date of acquisition as determined by an independent appraisal.

The purchase price was allocated as follows:	(in millions)
Deferred compensation	$13.0
In-process research and development	12.8
Fixed assets	1.2
Other intangible assets	16.9
Goodwill	54.6
	$98.5

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS No. 142 effective January 1, 2002. The Company is currently evaluating the effect that the adoption of the provisions of SFAS No. 142 will have on its results of operations and financial position.

Identifiable intangible assets resulting from the acquisition of FED and the excess purchase price over net assets acquired ("goodwill") are being amortized on a straight-line basis over their respective estimated useful lives of approximately three years. The Company's ability to realize its goodwill is dependent upon its ability to raise sufficient financing in order to expand the

rollout and commercialization of its products. In the third quarter of 2001, the Company was able to secure a limited amount of additional financing to fund its operations, however, such financing was not in the amount the Company expected to be able to secure, nor was it enough to rollout commercialization of its product on a wide scale basis, as had been contemplated by its business plan. Based on these factors, the Company revised its future business plan and evaluated the carrying value of the identifiable intangible assets and goodwill that was a result of its acquisition of FED. Based on this evaluation, the Company determined that the assets were impaired, and, accordingly, during the quarter ended September 30, 2001, the Company recorded an impairment write-down of its goodwill and other identifiable intangible assets of approximately $32.1 based on the estimated discounted net cash flow to be generated over the remaining life of the assets. The impairment charge is included in the consolidated statement of operations for the year ended December 31, 2001. Inclusive of this impairment write-down, amortization of purchased intangibles expense for the year ended December 31, 2001 was approximately $50.0 million.

As of December 31, 2001, other intangible assets were comprised of the following (in millions):

Purchased identifiable intangibles	18.0
Less: Accumulated amortization	(16.3)
Other intangible assets, net	$ 1.7

Since for the three-year period prior to the acquisition of FED Corporation, Fashion Dynamics Corporation had no active business operations, management believes that the comparison of eMagin's financial results to that of the operating entity (FED Corporation) provides the most meaningful comparative information to the reader. Accordingly, the following comparative information reflects the operating results of FED Corporation for all periods prior to the merger and it should be read in conjunction with the consolidated financial statements and notes thereto. The comparison of financial information below for the period ended December 31, 2000 reflects pro forma results of eMagin for the period January 1, 2000 through December 31, 2000 and its predecessor FED Corporation for the period January 1, 2000 to March 15, 2000, on a combined basis, such that the amounts presented and discussed reflect the full year of operations for each period. Reference is made to our consolidated financial statements included herein for further detail on the results of eMagin and FED Corporation for their respective periods of ownership.

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

articles of association and by-laws of eMagin-Nevada. No change in the corporate name, board members, business, management, fiscal year, assets, liabilities, employee benefit plans or location of principal facilities of eMagin occurred as a result of the reincorporation.

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

STATEMENT OF OPERATIONS

The following are descriptions of the revenue and expense components of our statement of operations:

Total revenues currently represent revenues mostly from contracts funded by U.S. government programs. We have historically earned revenues from certain of our research and development activities under both fixed-price contracts and cost-type contracts, including some cost-plus-fee contracts. Revenues relating to 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 profit based on the relationship of costs and the allocation of allowable indirect costs as defined by each contract. The amount of revenues earned is dependent upon the execution of new government contracts, which may not be predictable or consistent from period to period because of variations in government funds allocated to research and development in our field of technology.

Research and development expenses represent salaries, development materials, external contracts, equipment lease and depreciation expense, electronics, rent, utilities and costs associated with operating our manufacturing facility. These costs are expensed as incurred. We have received cost sharing awards from certain U.S. government agencies to fund certain research and development. Funding from this type of contract is recognized as a reduction in research and development operating expenses during the period in which the services are performed and related direct expenses are incurred. As of December 31, 2001, the remaining amounts to be incurred and billed on these active "cost sharing" contracts totaled approximately $0.7 million and $0.3 million, respectively.

Non-cash stock-based compensation expense represents expenses associated with stock option grants to our officers and employees at below fair market value as additional compensation for their services and to induce them to lock-up their options for a longer time than would normally be specified under the Company's standard option grant. Deferred compensation is amortized over the remaining vesting period of the underlying options. The expense also represents warrant grants with exercise prices below fair market value to security holders of eMagin for a reduced number of warrants to induce them to lock-up prior to the merger.

Amortization of purchased intangibles represents the cost of amortization of the value of goodwill and other acquired intangible assets. The purchased intangibles are amortized over their expected useful lives of three years on a straight-line basis.

Selling, general and administrative expenses principally represent the cost of salaries and fees for professional services, legal fees incurred in connection with patent filings and related matters, depreciation and amortization, and other administrative expenses as well as expenses associated with marketing.

Basic and diluted net loss per common share is computed by using the weighted average number of shares of common stock outstanding during the period, restated for the effect of the merger upon the number of shares outstanding in the current year, and for the presentation of the net loss per share for the predecessor, a stock split effected during 1999. No common stock equivalents have been included in the computation of weighted average shares outstanding, as their effect would be anti-dilutive.

Results of Operations

Comparison of our financial results for the years ended December 31, 1999, 2000 and 2001.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues

Revenues increased to $5.8 million for the year ended December 31, 2001 from $3.1 million for the year ended December 31, 2000, representing an increase of 87%. This increase was due primarily to the recognition of revenue from certain government contracts relating to head-wearable displays.

Research and Development Expenses

Gross research and development expenses increased to $14.3 million for the year ended December 31, 2001 from $13.3 million for the year ended December 31, 2000, representing a 7.5% increase. Of these amounts, we received $1.6 million in cost sharing from the U.S. government for the year ended December 31, 2001, and $1.5 million for the year ended December 31, 2000. The $1.0 million increase in gross expenses for the year ended December 31, 2001 reflects the additional costs associated with personnel costs, equipment leases, depreciation, and material costs resulting from increased research and development activities and equipment additions at our manufacturing facility.

Non-Cash Stock-Based Compensation Expense

Non-cash stock-based compensation expense was $2.8 million for the year ended December 31, 2001 versus $10.3 million for the year ended December 31, 2000. The activity, for the years ended December 31, 2001 and 2000, reflects the amortization of deferred compensation costs related to the issuance of stock options, warrants issued and re-priced warrants and options at below fair market values in the first quarter of 2000.

Amortization and Write-Down of Goodwill and Purchased Intangibles

Amortization and write down of goodwill and purchased intangibles expense increased to $50.0 million for the year ended December 31, 2001 from $20.9 million for the year ended December 31, 2000. The $29.1 million increase in amortization and impairment write-down of its goodwill is primarily the result of the impairment charge recorded in 2001.

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Acquired In-Process Research and Development

In connection with the merger in March 2000, we allocated $12.8 million of the purchase price to acquired in-process research and development expense. Accordingly, these costs were expensed during the year ended December 31, 2000 upon finalization of a third party appraisal. No costs were expensed during the year ended December 31, 2001.

General and Administrative Expenses

General and administrative expenses increased to $7.4 million for the year ended December 31, 2001 from $6.1 million for the year ended December 31, 2000, representing a 21.3% increase. The $1.3 million increase in selling, general and administrative expenses was due primarily to increases in marketing activity, personnel costs, travel and patent filings.

Other Income (Expense)

Other expenses decreased to $1.4 million for the year ended December 31, 2001 from $2.6 million for the year ended December 31, 2000. The decrease of $1.2 million was due primarily to the decrease in amortization of the debt discount from the beneficial conversion of a bridge loan entered into by the company.

Net Loss/Net Loss Per Common Share

The following provides a reconciliation of information used in calculating the per share amounts for the year ended December 31, 2001, 2000 and 1999. The 1999 loss attributable to common shareholders includes an effect of an induced conversion of convertible preferred stock that took place in June 1999.

	2001	2000
Loss attributable to common shareholders		
Net loss	$(68,486,735)	$(61,521,866)
Effect of induced conversion of Convertible Preferred Stock		
Loss attributable to common shareholders	$(68,486,735)	)$(61,521,866)
Weighted average shares outstanding	25,100,211	22,144,904
Basic and diluted loss per common share	$ (2.73)	$ (2.78)

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Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Revenues

Revenues increased to $3.1 million for the year ended December 31, 2000 from $1.9 million for the year ended December 31, 1999, representing an increase of 63%. This increase was due primarily to the recognition of revenue from certain government contracts relating to OLED microdisplays.

Research and Development Expenses

Gross research and development expenses increased to $13.3 million for the year ended December 31, 2000 from $11.2 million for the year ended December 31, 1999, representing a 17.7% increase. Of these amounts, we received $1.5 million in cost sharing from the U.S. government for the year ended December 31, 2000, and $1.1 million for the year ended December 31, 1999. The $2.1 million increase in gross expenses for the year ended December 31, 2000 reflects the additional costs associated with personnel costs, equipment leases, depreciation, and material costs resulting from increased research and development activities and equipment additions at our manufacturing facility.

Non-Cash Stock-Based Compensation Expense

Non-cash stock-based compensation expense was $10.3 million for the year ended December 31, 2000 versus no activity for the year ended December 31, 1999. The activity, for the year ended December 31, 2000, reflects the amortization of deferred compensation costs related to the issuance of stock options, warrants issued and re-priced warrants and options at below fair market values in the first quarter of 2000.

Amortization of Purchased Intangibles

Amortization of purchased intangibles expense increased to $20.9 million for the year ended December 31, 2000 from $0.8 million for the year ended December 31, 1999. The $20.1 million increase in amortization for purchased intangibles expense is the result of non-cash charges related to the amortization of goodwill and intangibles created by the merger.

Acquired In-Process Research and Development

In connection with the merger, we allocated $12.8 million of the purchase price to acquired in-process research and development. Accordingly, these costs were expensed during the year upon finalization of a third party appraisal.

General and Administrative Expenses

General and administrative expenses increased to $6.1 million for the year ended December 31, 2000 from $5.2 million for the year ended December 31, 1999,

registration requirements of the 17.3% increase. The $0.9 million increase in selling, general and administrative expenses was due primarily to increases in marketing activity, personnel costs, travel and patent filings.

Other Income (Expense)

Other expenses increased to $2.6 million for the year ended December 31, 2000 from $0.4 million for the year ended December 31, 1999. The increase of $2.2 million was due primarily to the amortization of the debt discount from the beneficial conversion of a bridge loan entered into by us prior to the merger.

Liquidity and Capital Resources

Our cash requirements depend on numerous factors, including completion of our product development activities, ability to commercialize our products, market acceptance of our products and other factors. We expect to devote substantial capital resources to continue our development programs directed at

commercializing our products in our target markets, hire and train additional staff, expand our research and development activities, develop and expand our manufacturing capacity and begin production activities. Through December 31, 2001 we have incurred accumulated losses of approximately $116.7 million since our inception and we anticipate incurring significant losses as we fund our growth. Since inception we have financed our operations through private placements of equity securities, research and development contracts and borrowings. As of December 31, 2001, we had $0.7 million in cash and cash equivalents and a working capital deficit of $5.5 million. We subsequently received approximately $3.2 million in equity and convertible debt, and we received a commitment for a $15 million private placement (See "Recent Issuances Of Unregistered Securities"). Subsequent to year end we have raised approximately $3.2 million in various debt and equity transactions to support our current operations. In December 2001, we reduced our workforce due to our working capital constraints. Subsequent to year end, we rehired approximately 8 of the previously terminated employees after raising such capital to pursue production of our products.

Net cash used in operating activities was $10.8 million for the year ended December 31, 2001. Cash used in operating activities resulted primarily from our net loss partially offset by increases from non-cash charges. Cash used in operating activities for 2000 was $14.5 million and $8.6 million in 1999 resulting primarily from operating losses.

Net cash used by investing activities was $0.5 million for the year ended December 31, 2001. This represented net cash used of $0.5 million for capital expenditures. Net cash used by investing activities in 2000 was $0.4 million primarily from net cash acquired in acquisition of $1.2 million, offset by $0.8 million used for capital expenditures. In 1999, net cash used in investing activities was $0.3 million primarily for capital expenditures.

Net cash provided by financing activities was $4.7 million for the year ended December 31, 2001, and consisted primarily of proceeds from the issuance of debt. Net cash provided by financing activities was $22.0 million for the year ended December 31, 2000, and consisted primarily of proceeds from the issuance of common stock in a private placement of $22.5 million offset by

decreases in short term debt and capital leases of $0.5 million. Cash provided by financing activities for 1999 was $7.7 million primarily from the issuance of short-term debt and the issuance of preferred stock. In June of 1999, all of the preferred shareholders voted to convert their shares into common stock at conversion rates that ranged between 2.8 to 5.5 shares of common stock for each share of preferred stock.

We currently anticipate that we will continue to experience significant growth in our operating expenses for the foreseeable future and that our operating expenses will be a material use of our cash resources. eMagin's recurring losses from operations since inception raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are described in Note 1 to the Item 8 (Financial Statements and Supplementary Data).

Pursuant to a Registration Rights Agreement dated November 27, 2001 by and between the Company and investors named therein, we may be forced to pay certain liquidated cash damages in the near future if we fail to use our reasonable best efforts to cause the registration statement thereunder to be declared effective by the Commission by May 27, 2002.

Our primary sources of liquidity on a short term basis can be expected to be met through cash generated from debt, equity financing and US Government contract cash receipts.

On a long-term basis, our liquidity requirements can be expected to be met through cash generated from operations, US Government contract cash receipts and equity financing.

We have liabilities for approximately $3.5 million for unpaid bills, rent and operating leases, that are in default, contracts, and other liabilities. These items could materially affect our liquidity, if we are not successful in negotiating acceptable settlements or reasonable repayment terms. It is possible that we may be required to pay this entire amount along with additional legal and defense costs or penalties. We need to raise substantial additional equity or debt financing in the near future in order to continue our development growth and commercialization of our products. There can be no assurance that additional equity or debt financing will be available on acceptable terms or at all. If we are unable to obtain additional capital, we may be required to reduce the scope of our planned product development, selling and marketing activities and expansion of our manufacturing facilities, which would have a material adverse effect on our business, financial condition and operating results and our ability to continue as a going concern. In the event that we raise additional equity financing, further dilution to investors could result. Section 7A below, under "Risks Related To Our Financial Results," provides a more detailed description.

Unaudited Quarterly Results of Operations for the Years Ended December 31, 2001, 2000 and 1999

	Year ended December 31, 2001		
	First Quarter	Second Quarter	Third Quarter
Revenues	$2,030,201	$1,616,005	$1,176,628
Net loss	(9,708,435)	(10,832,756)	(42,377,769)
Net loss per share Basic and diluted	$(0.39)	$(0.43)	$(1.69)

	Year ended December 31, 2000		
	First Quarter	Second Quarter	Third Quarter
Revenues	$12,266	$828,394	$1,011,763
Net loss	(2,257,156)	(11,004,386)	(24,036,650)
Net loss per share Basic and diluted	$(0.17)	$(0.44)	$(0.96)

	Year ended December 31, 1999		
	First Quarter	Second Quarter	Third Quarter

Revenues	$ --	$ --	$ --
Net loss	(326)	(3,327)	(2,027)
Net loss per share Basic and diluted	$ --	$(0.0005)	$(0.0003)

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum

life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS No. 142 effective January 1, 2002. eMagin is currently evaluating the effect that the adoption of the provisions of SFAS No. 142 will have on its results of operations and financial position.

In July 2001, the FASB also issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires obligations associated with the retirement of long-lived assets to be recorded as increases in costs of the related asset. Also, on October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 develops one accounting model for determining impairment based on the model in SFAS No. 121, and for long-lived assets that are to be disposed of by sale, requires them to be disposed of at the lower of book value or fair value less cost to sell. SFAS No. 144 expands the scope of "discontinued operations." The new rules will be applied prospectively beginning January 1, 2002. Management does not expect the adoption of these statements to have a material impact to its financial statements.

ITEM 7A: QUALITATIVE AND QUANTITATIVE Disclosures About Market Risk

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

or contribute to such differences in outcomes and results, include, but are not limited to, those discussed below.

Interest Rate Risk

Substantially all of the Company's cash equivalents and investment securities are at fixed interest rates, and as such, the fair market value of these instruments is affected by changes in market interest rates. As of December 31, 2001, all of the Company's cash equivalents and investment securities mature within one year. Accordingly, we believe that the market risk arising from our holdings of these financial instruments is immaterial. However, in the future, we may invest in securities with maturities of more than one year, which may carry greater interest rate risk.

Foreign Currency Exchange Risk

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

Risk Factors

In evaluating our business, prospective investors and shareholders should carefully consider the following risks in addition to the other information in this 10-K or in the documents referred to in this 10-K. Any of the following risks could have a material adverse impact on our business, operating results and financial condition and result in a complete loss of your investment.

Risks Related To Our Financial Results

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

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

fund our current operations, we may not be able to continue as a going concern. If we are unable to continue as a going concern, we may be forced to significantly reduce or cease our current operations. This could significantly reduce the value of our securities, which could result in our de-listing from the American Stock Exchange and cause investment losses for our shareholders.

We may not maintain The American Stock Exchange (the "Exchange") listing requirements. To maintain the listing of our common stock on the Exchange, we are required to meet certain listing requirements, including, in the case of our common stock selling for a substantial period of time at a low price per share, effecting a reverse split of such shares within a reasonable time after being notified by the Exchange that such action is appropriate under all the circumstances. In its review of whether a share price is too low or whether a reverse split is appropriate, the Exchange will consider all pertinent factors, including market conditions in general, the number of shares outstanding, plans which may have been formulated by management, applicable regulations of the state of incorporation or of any governmental agency having jurisdiction over eMagin, and the relationship to other Exchange policies regarding continued listing. If the Exchange were to determine that our share price is too low and that we should reverse split our shares but we were unable to comply for any reason, our common stock may be delisted from the Exchange. Delisting of our common stock could materially adversely affect the market price, the market liquidity of our common stock and our ability to raise necessary capital. Moreover, it would likely be more difficult to trade in or to obtain accurate quotations as to the market price of our common stock.

We have a history of losses since our inception and expect to incur losses for the foreseeable future. Accumulated losses excluding non-cash transactions as of December 31, 2001, were $27.5 million and acquisition related non-cash transactions were $89.2 million which resulted in an accumulated net loss of $116.7 million, the majority of which was related to the March 2000 merger and its subsequent write-down of its goodwill. The non-cash losses were dominated by the amortization and write-down of goodwill and purchased intangibles and write-down of acquired in process research and development related to the March 2000 acquisition, and also included some non-cash stock-based compensation. We have not yet achieved profitability and we can give no assurances that we will achieve profitability within the foreseeable future as we fund operating and capital expenditures in areas such as establishment and expansion of markets, sales and marketing, operating equipment and research and development. We cannot assure investors that we will ever achieve or sustain profitability or that our operating losses will not increase in the future.

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

Risks Related To Our Intellectual Property

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

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

Risks Related To the Microdisplay Industry

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

market. The viewfinder microdisplay market sector is well established with entrenched competitors who we must displace.

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

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

Competing products may get to market sooner than ours. Our competitors are investing substantial resources in the development and 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. Color LCOS displays are currently in initial production, and may be in higher volume production a year or more earlier than our microdisplays, which could have a significant detrimental effect on our market opportunity.

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

Our products are subject to lengthy OEM development periods. We plan to sell most of our microdisplays to OEMs who will incorporate them into products they sell. OEMs determine during their product development phase whether they will incorporate our products. The time elapsed between initial sampling of our products by OEMs, the custom design of our products to meet specific OEM product requirements, and the ultimate incorporation of our products into OEM consumer products is significant. If our products fail to meet our OEM customers' cost,

performance or technical requirements or if unexpected technical challenges arise in the integration of our products into OEM consumer products, our operating results could be significantly and adversely affected. Long delays in achieving customer qualification and incorporation of our products could adversely affect our business.

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

Risks Related To Manufacturing

We expect to depend on semiconductor contract manufacturers to supply our silicon integrated circuits and other suppliers of key components, materials and services. We do not manufacture our silicon integrated circuits on which we incorporate the OLED. Instead, we expect to provide the design layouts to semiconductor contract manufacturers who will manufacture the integrated circuits on silicon wafers. We also expect to depend on suppliers of a variety of other 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.

We have not manufactured OLED-on-silicon products in large commercial quantities and we do not know if our manufacturing yields or throughput will be commercially viable. In order for us to be successful as a product or component manufacturer, our products must be manufactured to meet high quality standards in commercial quantities at competitive prices. We have not begun quantity commercial production of any of our OLED-based products and we are not staffed adequately to run high quantity production. The manufacture of OLED-on-silicon is new and OLED microdisplays have not been produced in significant volumes. We expect to begin commercial production during 2002 to meet anticipated demand for our products. If we are unable to produce our products in sufficient quantity, we will be unable to attract customers. In addition, we cannot assure you that

once we commence volume production we will attain yields at high throughput that will result in profitable gross margins or that we will not experience manufacturing problems which could result in delays in delivery of orders or product introductions.

We are dependent on a single manufacturing line. We initially expect to manufacture our products on a single manufacturing line. If we experience any significant disruption in the operation of our manufacturing facility we may be unable to supply microdisplays to our customers. For this reason, some OEMs may also be reluctant to commit a broad line of products to our microdisplays without a second production facility in place. Interruptions in our

manufacturing could be caused by manufacturing equipment problems, the introduction of new equipment into the manufacturing process or delays in the delivery of new manufacturing equipment. Lead-time for delivery of manufacturing equipment can be extensive. No assurance can be given that we will not lose potential sales or be unable to meet production orders due to production interruptions in our manufacturing line. In order to meet the requirements of certain OEMs for multiple manufacturing sites, we will have to expend capital to secure additional sites and may not be able to manage multiple sites successfully.

Risks Related To Our Business

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

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

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

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

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

Our business strategy may fail if we cannot continue to form strategic

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

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

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

organization, the complexities of complying with foreign law and custom, political instability and the complexities of taxation in multiple jurisdictions.

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

Our business is subject to environmental regulations and possible liability arising from potential employee claims of exposure to harmful substances used in the development and manufacture of our products. We are subject to various governmental regulations related to toxic, volatile, experimental and other hazardous chemicals used in our design and manufacturing process. Our failure to

comply with these regulations could result in the imposition of fines or in the suspension or cessation of our operations. Compliance with these regulations could require us to acquire costly equipment or to incur other significant expenses. We develop, evaluate and utilize new chemical compounds in the manufacture of our products. While we attempt to ensure that our employees are protected from exposure to hazardous materials we cannot assure you that potentially harmful exposure will not occur or that we will not be liable to employees as a result.

Risks Related To Our Stock

The substantial number of shares that are or will be eligible for sale could cause our common stock price to decline even if the Company is successful. Sales of significant amounts of common stock in the public market, or the perception that such sales may occur, could materially affect the market price of our common stock. These sales might also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. As of March 1, 2002, we have outstanding options to purchase 5,514,958 shares; most are currently locked-up due to contractual restrictions. The restrictions on the sale of the remaining shares will lapse between June 16, 2002 and January 7, 2003. There are also outstanding warrants to purchase 3,342,435 shares of common stock.

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

Our principal stockholders, officers and directors will own a significant voting interest in our voting stock. Current directors and officers of eMagin Corporation or their affiliates beneficially own a large percentage of our outstanding common stock. If these shareholders were to vote together, they

could significantly influence the outcome of items that are submitted to a vote of the shareholders including the election of our directors.

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

We cannot forecast our future performance. We cannot accurately forecast our revenues because of our limited commercial operating history and because the OLED microdisplay market is only beginning to emerge. We may experience significant fluctuations in our quarterly operating results due to many factors which are outside our control. These factors include: fluctuation in demand and orders for our products; timing or cost of future supply or equipment deliveries; manufacturing capacity and yields; variations in product and process

development costs; expenses or operational disruptions resulting from acquisitions; activities of our competitors; adequate working capital; and general economic conditions. Due to these factors, we cannot anticipate with any degree of certainty what our revenues, if any, will be in future periods. You have limited historical financial data and operating results with which to evaluate our business and our prospects. As a result, you should consider our prospects in light of the expense, difficulties and delays frequently encountered by early stage companies formed to pursue development of new technologies.

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

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENT INDEX

Page

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of eMagin Corporation:

We have audited the accompanying consolidated balance sheets of eMagin Corporation (a Delaware corporation in the development stage; see Note 1) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the years then ended and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the period from inception (January 23, 1996) to December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We have not audited the financial statements of the Company from inception to December 31, 1999. These financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the consolidated statements of operations, shareholders' equity (deficit) and cash flows for the period from inception to December 31, 1999, is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of eMagin Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the

years then ended, and for the period from inception to December 31, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's recurring losses from operations since inception and the working capital deficit raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

New York, New York
March 13, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors
FASHION DYNAMICS CORP.:

I have audited the accompanying Balance Sheets of FASHION DYNAMICS CORP. (A Development Stage Company), as of December 31, 1999 and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FASHION DYNAMICS CORP. (A Development Stage Company), as of December 31, 1999 and the results of its operations and cash flows for the years ended December 31, 1999 and December 31, 1998, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has no established source of revenue. This raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is described in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Barry L. Friedman
Certified Public Accountant
1582 Tulita Drive
Las Vegas, NV 89123
702-361-8414

Las Vegas, Nevada

February 17, 2000

Where Barry L. Friedman, CPA is not the accountant for the most recent fiscal year ended, and he has audited one or more of the prior fiscal years. Barry L. Friedman was a sole practitioner in his capacity as the Company's previous auditor. This represents a copy of Barry L. Freidmans's previously issued report, which he is unable to reissue in accordance with Rule 2-02(a) of Regulation S-X due to his untimely demise, and hence, no longer in practice.

eMAGIN CORPORATION (formerly FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

ASSETS	2001	
CURRENT ASSETS:		
Cash and cash equivalents	$ 738,342	$ 7,
Contract receivables	485,021	
Costs and estimated profits in excess of billings on contracts in progress	293,273	
Inventory	90,720	
Prepaid expenses and other current assets	388,344	
Total current assets	1,995,700	9,
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	1,166,509	1,
GOODWILL AND PURCHASED INTANGIBLES, net	1,657,238	51,
OTHER LONG-TERM ASSETS	94,367	
Total assets	$ 4,913,814	$ 62,
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 3,116,558	$
Accrued payroll	788,302	1,
Accrued expenses	615,418	
Advance payments on contracts to be completed	289,538	
Current portion of long-term debt	693,197	
Other short-term debt	1,875,000	
Other current liabilities	108,805	
Total current liabilities	7,486,818	3,
LONG-TERM DEBT	2,305,184	
COMMITMENTS and Contingencies (Note 9)		
SHAREHOLDERS' EQUITY (DEFICIT):		

Common stock, $0.001 par value, 100,000,000 and 40,000,000 shares authorized, 25,171,183 and 25,069,143 shares issued and outstanding, respectively	25,171	
Additional paid-in capital	114,058,560	116,
Deferred compensation	(2,277,367)	(9,
Deficit accumulated during the development stage	(116,684,552)	(48,
Total shareholders' equity (deficit)	(4,878,188)	59,
Total liabilities and shareholders' equity (deficit)	$ 4,913,814	$ 62,

The accompanying notes are an integral part of these consolidated balance sheets.

eMAGIN CORPORATION (FORMERLY FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, 1999
and for the period from inception (January 23, 1996) to December 31, 2001

	2001	2000	1999	Period fro Inception (January 2 1996) to December 3 2001
REVENUES:				
Contract revenues	$5,005,657	$ 2,557,587	$ -	$7,563,2
Product sales	841,713	-	-	841,7
Total revenues	5,847,370	2,557,587	-	8,404,9
COSTS AND EXPENSES:				
Research and development, net of funding under cost sharing arrangements of $1,555,811, $1,328,121 and $0, respectively	12,724,161	9,634,948	-	22,359,1
General and administrative	7,385,707	5,149,513	18,452	12,566,2
Amortization of purchased intangibles	17,886,838	20,932,320	-	38,819,1
Write-down of goodwill and purchased intangibles	32,145,863	-	-	32,145,8
Acquired in-process research and development	-	12,820,000	-	12,820,0
Non-cash charge for stock-based compensation	2,841,003	2,539,828	-	5,380,8

Total costs and expenses, net	72,983,572	51,076,609	18,452	124,091,1
LOSS FROM OPERATIONS	(67,136,202)	(48,519,022)	(18,452)	(115,686,2
OTHER (EXPENSE)/INCOME, NET	(1,350,533)	352,205	-	(998,3
Net loss	$(68,486,735)	$(48,166,817)	$(18,452)	$(116,684,5
Basic and diluted loss per share	$(2.73)	$(2.18)	$(0.00)	
Basic and diluted weighted average shares outstanding	25,100,211	22,144,904	21,156,400	

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

eMAGIN CORPORATION (FORMERLY FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) FOR THE PERIOD FROM INCEPTION (JANUARY 23, 1996) to DECEMBER 31, 1996 and FOR EACH of the FIVE YEARS ENDED DECEMBER 31, 1997, 1998, 1999, 2000 AND 2001

	Number of Shares	$0.001 par value	Additional Paid- in Capital	Deferred Compensation
February 6, 1996 Issued for Cash	600,000	600	5,400	-
Net loss, January 23, 1996 (Inception) to December 31, 1996	-	-	-	-
Balance, December 31, 1996	600,000	600	5,400	-
Issuance of Common Stock for cash	500,000	500	24,500	-
Net loss	-	-	-	-
Balance, December 31, 1997	1,100 000	1,100	29,900	-
Effect of stock split	5,500,000	5,500	(5,500)	-
Net loss	-	-	-	-
Balance, December 31, 1998	6,600,000	6,600	24,400	-
Effect of stock split	13,556,400	13,556	(13,556)	-

Net loss	-	-	-	-
Balance, December 31, 1999	20,156,400	20,156	10,844	-
Sale of common stock in private placement, net of issuance costs of $1,000,000	3,464,547	3,465	23,246,535	-
Common stock issued and options and warrants exchanged in connection with FED acquisition	10,486,386	10,486	92,354,461	-
Cancellation of existing shareholders common stock	(9,356,018)	(9,356)	9,356	-
Issuance of common stock related to exercise of warrant	1,080	1	1,835	-
Issuance of common stock for services	316,748	317	2,216,919	-
Deferred compensation	-	-	-	(13,023,364)
Amortization of deferred compensation	-	-	-	2,539,828
Reversal of deferred compensation balance for forfeited stock options	-	-	(1,217,139)	1,217,139
Net Loss	-	-	-	-

Balance, December 31, 2000	25,069,143	$25,069	$116,622,811	$(9,266,397)	$
Issuance of common stock related to exercise of warrant	16,002	16	27,507	-	
Issuance of common stock for services	86,038	86	116,151	-	
Issuance of warrants related to debt financing (Note 5)	-	-	408,068	-	
Value related to beneficial conversion features of debt financings	-	-	530,473	-	
Value related to original issue discount features of debt financings	-	-	501,577	-	
Amortization of deferred compensation	-	-	-	2,841,003	
Reversal of deferred compensation balance for					

forfeited stock options	-	-	(4,148,027)	4,148,027	
Net Loss	-	-	-	-	
Balance, December 31, 2001	25,171,183	$25,171	$114,058,560	$(2,277,367)	$(

The accompanying notes are an integral part of these consolidated statements

eMAGIN CORPORATION (formerly FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 and 1999 and for the period from inception (January 23, 1996) to December 31, 2001

	2001	2000	1999	Period fro Inception (January 2 1996) thro December 3 2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(68,486,735)	$(48,166,817)	$(18,452)	$(116,684
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	18,453,461	21,488,686	94	39,942
Write-down of goodwill and purchased intangibles	32,145,863	--	--	32,145
Loss on sale of assets	--	98,548	2,103	97
Non-cash charge for stock-based compensation	2,841,003	2,539,828	--	5,380
Non-cash interest related charges	1,222,562	--	--	1,222
Non-cash charge for services received	116,151	--	--	116
Acquired in-process research and development	--	12,820,000	--	12,820
Changes in operating assets and liabilities:				
Contract receivables	340,606	(693,770)	--	(353
Costs and estimated profits in excess of billings on contracts in progress	334,074	(7,783)	--	326
Inventory	(90,720)	--	--	(90
Prepaid expenses and other current assets	276,984	(359,506)	--	(82
Other long-term assets	11,027	(94,943)	--	(83

Advanced payment on contracts to be completed	86,531	311,812	--	398
Accounts payable, accrued expenses and other current liabilities	1,932,619	51,039	--	1,983
Net cash used in operating activities	(10,816,574)	(12,012,906)	(16,255)	(22,860
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of equipment	(464,829)	(803,033)	--	(1,267
Net cash acquired in acquisition	--	1,239,162	--	1,239
Net cash (used in) provided by investing activities	(464,829)	436,129	--	(28

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

eMAGIN CORPORATION (formerly FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 and 1999 and for the period from inception (January 23, 1996) to December 31, 2001

	2001	2000	1999	Period fro Inception (January 2 1996) to December 3 2001
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from sales of common stock, net of issuance costs	--	21,250,000	--	21,281,00
Proceeds from exercise of warrants	27,609	--	--	27,60
Proceeds from debt financing transactions	4,875,000	--	--	4,875,00
Re-payments of bridge loan and obligations under capital lease	(250,121)	(2,305,966)	--	(2,556,08
Net cash provided by financing activities	4,652,488	18,944,034	--	23,627,52
Net (decrease)/increase in cash and cash equivalents	(6,628,915)	7,367,257	(16,255)	738,34
CASH AND CASH EQUIVALENTS,				

beginning of period	7,367,257	--	16,255	-
CASH AND CASH EQUIVALENTS, end of period	$ 738,342	$7,367,257	$ --	$738,34
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$ 53,436	$ 244,208	$ --	
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Acquisition of business:				
Total purchase price	$ --	98,465,622	$ --	
Fair value of assets, net of cash acquired	--	38,807,454	--	
Net liabilities assumed	--	3,816,747	--	
Excess purchase price over net assets acquired	--	54,602,259	--	
Net cash acquired in acquisition	$ --	$ 1,239,162	$ --	

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

eMAGIN CORPORATION (Formerly Fashion Dynamics Corp.)
(a development stage company)

Notes to the Consolidated Financial Statements

Note 1 - NATURE OF BUSINESS AND DEVELOPMENT STAGE RISKS

Fashion Dynamics Corporation ("FDC") was organized January 23, 1996, under the laws of the State of Nevada. FDC had no active business operations other than to acquire an interest in a business. On March 16, 2000, FDC acquired FED Corporation ("FED") (the "Merger"). FED was a developer and manufacturer of optical systems and micro displays for use in the electronics industry. FED's wholly owned subsidiary, Virtual Vision, develops and markets micro display systems and optics technology for commercial, industrial and military applications. The merged company changed its name to eMagin Corporation (the "Company" or "eMagin") (Note 2). Following the Merger, the business conducted by the Company is the business conducted by FED prior to the Merger.

The Company continues to be a development stage company, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises," as it continues to devote substantially all of its efforts to establishing a new business, and it has not yet commenced its planned principal operations. Revenues earned by the Company to date are primarily related to research and development type contracts and limited sales of preliminary prototype versions of the organic light emitting diode ("OLED") micro display.

Since its inception, FED has entered into research and development cost-sharing arrangements, as well as research and development contracts, with several government agencies and private industry. To date, such arrangements have provided total funding of approximately $35.5 million, including $32.6 million by FED prior to the Merger, through cost-sharing and contract revenues. Certain

of these arrangements continue through 2002 and may provide for approximately $0.5 million of additional funding. Such funding is subject to, among other factors, satisfactory progress on projects and available government funding.

Through December 31, 2001, the Company had incurred development stage losses totaling approximately $116.7 million. Prior to the acquisition of FED by FDC, FED incurred developmental stage losses totaling approximately $52.5 million. At December 31, 2001, the Company had approximately $1.2 million of cash, cash equivalents and contract receivables to fund short-term working capital requirements and approximately $5.5 million of working capital deficiency. The Company's ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near future to continue: (1) its research and development efforts, (2) hiring and retaining key employees, (3) satisfaction of its commitments and (4) the successful development, marketing and production of its products.

The Company believes that it will be able to secure financing in the near term and that the proceeds from such financings, along with financings closed subsequent to December 31, 2001 (Note 10) and its remaining cash resources at December 31, 2001, will be sufficient to fund the Company's operations into the first quarter of 2003 and beyond. However, there can be no assurance that sufficient capital will be available, when required, to permit the Company to realize its plan, or even if such capital is available, that it will be at terms favorable to the Company. Additionally, there can be no assurance that the

Company's efforts to produce a commercially viable product will be successful, or that the Company will generate sufficient revenues to provide positive cash flows from operations. These and other factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result should the Company be unable to continue in existence. (Also see Liquidity and Capital Resources section on Item 7 Management's Dicussion and Analysis of Financial Conditions and Results of Operation and Risks Related to Our Financial Results section of Item 7A Qualitative and Quantitative Disclosures About Market Risk.)

Note 2 - FED ACQUISITION

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock to FED shareholders, and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, based on the difference between the fair value and the exercise price of said equity instruments, $3.8 million of assumed liabilities and $0.4 million of acquisition costs. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the fair value of assets acquired and liabilities assumed as follows: $13.0 million to deferred compensation for the portion of value of options and warrants exchanged relating to unvested securities, $18.0 million to identifiable intangible assets as valued by an independent appraisal, and $54.6 million to goodwill. Such goodwill was being amortized over a three year period. The Company recorded a goodwill impairment charge of approximately $32.1 million in 2001 and approximately $17.9 million and $20.9 million in amortization expense related to goodwill and purchased intangible assets for the years ended December 31, 2001 and 2000, respectively. In accordance with SFAS No. 2, "Accounting for Research

and Development Costs", as clarified by Financial Accounting Standards Board Interpretation No. 4, amounts assigned to in-process research and development will be charged to expense as part of the allocation of purchase price. Accordingly, the Company recognized a charge of approximately $12.8 million associated with the write-off of acquired in-process research and technology, which is included in the accompanying consolidated statement of operations for the year ended December 31, 2000.

The following unaudited information reflects pro forma statements of operations data for the years ended December 31, 2000 and 1999, assuming the acquisition of FED occurred at the beginning of each year presented:

	2000	1999
Revenues	$ 3,126,000	$ 1,895,000
Net loss	$(65,305,000)	$(32,294,000)
Net loss per share	$ (2.95)	$ (1.25)

These pro forma results have been presented for comparative purposes only and do not purport to be indicative of the results that would have actually resulted had the acquisition occurred at the beginning of the years presented.

Note 3 - SIGNIFICANT ACCOUNTING POLICIES

Revenue and Cost Recognition

The Company has historically earned revenues from certain of its research and development activities under both firm fixed-price contracts and cost-type contracts, including some cost-plus-fee 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.

Product revenue is recorded when products are shipped to customers, at which time, title passes to the customer and the Company has no remaining future obligations. No right of return is provided to the customers who have purchased the products, and no returns of such goods have been received by the Company to date.

As of December 31, 2001 and 2000, the Company had received advanced payments on contracts to be completed of $275,000 and $311,812, respectively. These amounts, classified as deferred revenues in the accompanying consolidated balance sheets, represent that portion of amounts billed by the Company, or cash collected by the Company, for which services have not yet been provided or products have not yet been delivered.

Costs and Estimated Profits in Excess of Billings on Contracts in Progress

The Company records costs and estimated profits in excess of billings on contracts in progress as an asset on its balance sheet to the extent such costs, and related profits, if any, have been incurred under outstanding contracts and are expected to be collected.

The components of costs and estimated profits in excess of billings on contracts

in progress as of December 31, 2001 and 2000 were as follows:

	2001	2
Total costs incurred and estimated profits	$ 21,414,000	$ 3,
Less amounts billed	21,121,000	2,
Costs and estimated profits in excess of billings on contracts in progress	$ 293,000	$

Research and Development/Cost-Sharing Arrangements

To date, activities of the Company include the performance of research and development under cooperative agreements with United States ("U.S.") Government agencies. Current industry practices provide that costs and related funding under such agreements be accounted for as incurred and earned.

The Company has entered into three cost-sharing arrangements with an agency of the U.S. Government and one commercial customer. The Company has incurred research and development costs and earned funding under these agreements as of December 31, 2001 and December 31, 2000 as follows:

	2001	2
Unfunded research and development	$ 11,442,000	$ 8,
Research and development costs	2,838,000	2,
Funding received	(1,556,000)	(1,
	$ 12,724,000	$ 9,

The Company may incur approximately $700,000 of additional costs on these efforts. If such costs, as defined, are incurred, the government is obligated to reimburse the Company $300,000 of such amounts.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents consist primarily of overnight commercial paper and are stated at cost, which approximates market value, and are considered available for sale.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires the classification of debt and equity securities based on whether the securities will be held to maturity, are considered trading securities or are available-for-sale. Classification within these categories may require the securities to be reported at their fair market value with unrealized

gains and losses included either in current earnings or reported as a separate component of shareholders' equity, depending on the ultimate classification.

Comprehensive Income (Loss)

The Company complies with the provisions of SFAS No. 130, "Reporting Comprehensive Income," which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distributions to owners, for the period in which they are recognized. Comprehensive income (loss) is the total of net income (loss) and all other non-owner changes in equity (or other comprehensive income (loss)) such as unrealized gains or losses on securities classified as available-for-sale, foreign currency translation adjustments and minimum pension liability adjustments. Comprehensive income (loss) must be reported on the face of the annual financial statements. The Company's operations did not give rise to any material items includable in comprehensive income (loss), which were not already in net income (loss) for the years ended December 31, 2001, 2000 and 1999. Accordingly, the Company's comprehensive income (loss) is the same as its net income (loss) for all periods presented.

Equipment and Leasehold Improvements

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

Goodwill and Other Intangible Assets

Identifiable intangible assets resulting from the acquisition of FED and the excess purchase price over net assets acquired ("goodwill") are being amortized on a straight-line basis over their respective estimated useful lives of approximately three years. The Company's ability to realize its goodwill is

dependent upon its ability to raise sufficient financing in order to expand the rollout and commercialization of its products. In the third quarter of 2001, the Company was able to secure a limited amount of additional financing to fund its operations, however, such financing was not in the amount the Company expected to be able to secure, nor was it enough to rollout commercialization of its product on a wide scale basis, as had been contemplated by its business plan. Based on these factors, among others, the Company revised its future business plan and evaluated the carrying value of the identifiable intangible assets and goodwill. Based on this evaluation, the Company determined that the assets were impaired, and, accordingly, during the quarter ended September 30, 2001, the Company recorded an impairment write-down of its goodwill and other identifiable intangible assets of approximately $32.1 based on the estimated discounted net cash flow to be generated over the remaining life of the assets. The impairment charge is included in the accompanying consolidated statement of operations for the year ended December 31, 2001. Inclusive of this impairment write-down, amortization of purchased intangibles expense for the year ended December 31, 2001 was approximately $50.0 million.

As of December 31, 2001 and 2000, goodwill and other intangible assets were comprised of the following (in millions):

	2001	2000

Goodwill	$	$54.6
Purchased identifiable intangibles	18.0	18.0
Less: Accumulated amortization	(16.3)	(20.9)
Goodwill and other intangible assets, net	$ 1.7	$51.7

Long-Lived Assets

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," established financial accounting and reporting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill. SFAS No. 121 requires, among other things, that assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be realizable considering, among other factors, expected future undiscounted operating cash flows of the related asset.

Income Taxes

Deferred income taxes are recorded by applying enacted statutory tax rates to temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. At December 31, 2001 and 2000, the Company has net deferred tax assets of approximately $47.2 million and $19.8 million respectively, primarily resulting from the future tax benefit of net operating loss carry forwards discussed below. Such net deferred tax assets are fully offset by valuation allowances due to the uncertainty as to their realizability.

At December 31, 2001, the Company has net operating loss carry forwards totaling approximately $118.2 million, inclusive of the net operating losses acquired as part of the acquisition of FED, which expire through 2021, available to offset future Federal taxable income. Pursuant to Section 382 of the Internal

Revenue Code, the usage of a portion of these net operating loss carry forwards is limited due to changes in ownership that have occurred.

Principles of Consolidation

The accompanying consolidated financial statements of eMagin Corporation include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which the Company exercises control. Inter-company transactions and balances are eliminated in consolidation.

Loss per Common Share

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

Stock-Based Compensation

The Company accounts for stock-based compensation issued to employees in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company, as permitted, elected not to adopt the financial reporting requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," for stock-based compensation granted to employees. Accordingly, the Company has disclosed in the notes to the financial statements the pro forma net loss for the periods presented as if the fair-value-based method was used in accordance with the provisions of SFAS No. 123.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash, cash equivalents, contract receivables and costs and estimate profits in excess of billings on contracts in progress.

The Company maintains cash and cash equivalents with various major financial institutions. Cash equivalents consist primarily of overnight commercial paper. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

Contract receivables and costs and estimated profits in excess of billings on contracts in progress subject the Company to the potential for credit risk with

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customers, primarily government contractors. The Company establishes its credit polices based on an ongoing evaluation of its customers' creditworthiness and competitive market conditions and does not require collateral.

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Fair Value of Financial Instruments

The Company has various financial instruments, including cash, cash equivalents and short and long-term debt. The Company believes the carrying values of its financial instruments approximate their fair values.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill and intangible

assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS No. 142 effective January 1, 2002. The Company is currently evaluating the effect that the adoption of the provisions of SFAS No. 142 will have on its results of operations and financial position.

In July 2001, the FASB also issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires obligations associated with the retirement of long-lived assets to be recorded as increases in costs of the related asset. Also, on October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 develops one accounting model for determining impairment based on the model in SFAS No. 121, and for long-lived assets that are to be disposed of by sale, requires them to be disposed of at the lower of book value or fair value less cost to sell. SFAS No. 144 expands the scope of "discontinued operations." The new rules will be applied prospectively beginning January 1, 2002. Management does not expect the adoption of these statements to have a material impact to its financial statements.

Note 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements and their estimated lives are as follows at December 31, 2001 and 2000:

	Useful Lives	2001
Computer equipment and software	3	$ 260,000
Lab and factory equipment	3	1,551,000
Furniture, fixtures and office equipment	10	154,000
Leasehold improvements	Life of lease	325,000
		2,290,000
Less- Accumulated depreciation and amortization		1,123,000
		$ 1,167,000

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Depreciation and amortization expense of equipment and leasehold improvements for the years ended December 31, 2001 and 2000 was approximately $567,000 and $580,000, respectively. Depreciation expense for the year ended December 31, 1999 was immaterial to the consolidated financial statements.

Additionally, from time to time, the Company makes deposits on certain equipment that may ultimately be purchased by a financing company and leased to the Company. Amounts paid by the Company for such deposits totaled approximately $225,000 at December 31, 2001.

Note 5 - SHORT-TERM DEBT

On November 27, 2001, the Company entered into a secured convertible note purchase agreement (the "note agreement") with an investor group (the "Investors") whereby the Company could issue up to $1.5 million of secured convertible notes to the Investors, as defined. Concurrent with the note agreement, the Company issued secured promissory notes to the Investors in the amount of $875,000 (the "secured notes"). The secured notes accrue interest at an annual rate of 9.00% per annum and mature on August 30, 2002. The Company is also required to meet certain debt covenants, as defined. In addition, the Company granted a total of 359,589 warrants to the Investors in connection with the secured notes at an exercise price of $1.67 per share. Such warrants are exercisable through November 2004. The fair value of the warrants in the amount of approximately $262,000 was recorded as original issue discount, resulting in a reduction in the carrying value of the debt. The fair value of the warrants was calculated using the Black-Scholes option pricing model. The original issue discount was being amortized into interest expense over the life of the debt. Due to default on the secured notes which occurred on November 30, 2001, as discussed below, the remaining value of the original issue discount as of the date of default was amortized into interest expense. Accordingly, the related interest expense in the amount of $262,000 is included in "Other expense, net" in the accompanying consolidated statement of operations for the year ended December 31, 2001.

The secured notes were convertible into common stock at any time at a conversion price of $1.46 per share. Such conversion terms provided for a beneficial conversion feature. As the Investors had the option to convert the notes immediately upon execution of the agreement, the value of the beneficial conversion feature of approximately $244,000 was recognized immediately as interest expense and is included in "Other expense, net" in the accompanying consolidated statement of operations for the year ended December 31, 2001.

On November 30, 2001, the Company was not in compliance with a certain debt covenant, as defined, and consequently defaulted on the secured notes, causing the maturity date of the notes to accelerate and become immediately due (the "default"). The Investors elected not to demand payment immediately. Certain investors elected to reinvest their respective funds in a subsequent financing (see Note 10), while certain other investors elected for repayment of their respective funds. The repayments to those investors occurred subsequent to year-end. Accordingly, at December 31, 2001, the original liability of the secured notes of $875,000, plus accrued but unpaid interest, is included in current liabilities in the accompanying consolidated balance sheet for the year ended December 31, 2001.

On August 20, 2001, the Company entered into a $1.0 million bridge loan arrangement with The Travelers Insurance Company ("Travelers"). The loan accrues interest at an annual rate of 9.25% and matures on May 20, 2002. Additionally, for each week the loan is outstanding following the closing date of the arrangement (August 20, 2001), the Company is required to issue $50,000 worth of warrants to Travelers, as defined. Total warrants issuable to Travelers, per the

agreement, are not to exceed an amount such that the exercise of all related warrants would provide Travelers greater than 19.9% ownership of the outstanding common stock of the Company. Additionally, if the Company completes the sale of convertible debt securities for gross proceeds greater than $5 million prior to May 20, 2002, Travelers has the right to convert the aggregate principal and any accrued but unpaid interest on the bridge loan into the proportionate amount of convertible debt securities with similar terms and privileges.

Through December 31, 2001, the Company has issued an aggregate of 416,878 warrants to Travelers at exercise prices ranging from $1.28 to $1.93 per share in connection with this arrangement. Such warrants are exercisable through November 2004. Related interest expense of approximately $408,000 has been recognized in "Other expense, net" in the accompanying consolidated statement of operations for the year ended December 31, 2001. The expense represents to the fair value of the warrants on the date of grant calculated using the Black - Scholes option pricing model. Terms of a subsequent bridge loan arrangement entered into by the Company and certain private investors (see Note 10) included a cap on the maximum number of warrants issuable to Travelers under the Travelers bridge loan arrangement at 451,842 warrants. Travelers agreed to the aforementioned amendment.

In September 1999, FED entered into two $1,000,000 convertible bridge loans for an aggregate of $2,000,000. Each loan bore interest at 8.00% per annum and matured in June 2000. The loans were convertible at the option of the holder into shares of the Company's common stock at a purchase price equal to the per share value of the private placement completed in connection with the Merger. These liabilities were assumed by the Company in the Merger. The entire outstanding balance of the bridge loans, including accrued and unpaid interest, was repaid in June 2000.

Note 6 - LONG-TERM DEBT

On September 18, 2001 (the "closing date") the Company entered into a $3.0 million convertible debt arrangement with SK Corporation ("SK loan"). The SK loan accrues interest at an annual rate of 4.00% and matures on September 18, 2004. In connection with the debt arrangement, the Company issued warrants for the purchase of 205,479 shares of the Company's common stock at an exercise price of $1.46 per share. Such warrants are exercisable through September 2004. The fair value of the warrants in the amount of $240,000 has been recorded as original issue discount, resulting in a reduction in the carrying value of the debt. The fair value of the warrants was calculated using the Black-Scholes option pricing model. The original issue discount is being amortized into interest expense over the three-year life of the debt using the effective interest method. In the event the debt is converted prior to maturity, the remaining discount will be amortized into interest expense at the conversion date. For the year ended December 31, 2001, approximately $23,000 has been amortized into interest expense and is included in "Other expense, net" in the accompanying consolidated statement of operations for the year ended December 31, 2001.

The SK loan is convertible into common stock at any time at a fixed conversion price of $1.28 per share. Such conversion terms of the debt provide for a beneficial conversion feature. Due to the fact that the note holder had the option to convert the note immediately upon execution of the agreement, the value of the beneficial conversion feature of approximately $287,000 was recognized immediately as interest expense and is included in "Other expense, net" in the accompanying statement of operations for the year ended December 31, 2001.

Additionally, the terms of the debt arrangement provide for a put option, exercisable at the option of SK Corporation, to redeem up to 25% of the face value of the debt each 90-day period beginning on September 19, 2002. Accordingly, 25% of the face value of the debt and the proportionate share of

the original issue discount has been classified as short-term debt and is

included in "Current portion of long-term liabilities" in the accompanying consolidated balance sheet as of December 31, 2001. The remaining 75% of principal, original issue discount and accrued interest is classified as other long-term debt in the accompanying consolidated balance sheet as of December 31, 2001.

The components of long-term debt as of December 31, 2001 and 2000 are as follows:

	2001	2000
Notes payable (a)	$ 168,000	$ 346,000
Capital leases (b)	32,000	40,000
SK Loan	2,798,000	50,000
	2,998,000	436,000
Less- Current portion	693,000	313,000
	$ 2,305,000	$ 123,000

a. In May 1999, FED entered into a $625,000 three-year loan agreement collateralized by its fixed assets. Such liability was assumed in the Merger. The remaining principal balance is $71,000 at December 31, 2001 with payments due through 2002 at an interest rate of 13.88%.

In June 1999, FED entered into a $155,000 five-year uncollateralized loan agreement. Such liability was assumed in the Merger. The proceeds were used to finance a leasehold improvement. The principal balance is $97,007 at December 31, 2001 with payments due through 2004 at an interest rate of 18%.

b. The Company is party to a capital lease for certain equipment with aggregate remaining principal balance totaling $31,578 at December 31, 2001, excluding interest, due through 2003 at an interest rate of 7.27%.

Maturity of debt for years ending December 31 are as follows:

2002	$ 693,000
2003	51,000
2004	2,455,000
2005- Thereafter	-
Total	$ 3,199,000

Note 7 - SHAREHOLDERS' EQUITY (DEFICIT)

On July 16, 2001, the shareholders approved an increase in the number of authorized shares of common stock of the Company to 100,000,000 shares with a par value of $0.001 per share.

In October 2001, the Company entered into an agreement with a third-party whereby the Company issued 86,038 shares of common stock in lieu of cash payment for services rendered on behalf of the Company. The Company recorded an expense in the amount of approximately $116,000, the fair value of the shares granted based on the market value of the stock on the date of grant. The expense is included in "General and administrative" expense in the accompanying consolidated statement of operations for the year ended December 31, 2001. Additionally, the issuance of the shares is reflected in the consolidated statement of shareholders' equity(deficit) for the year ended December 31, 2001.

In connection with the stock agreement, the Company also entered into a supply agreement with the third-party for future purchases of supplies. (see Note 10)

In June 2001, The Travelers Insurance Company exercised warrants to purchase 16,002 shares of common stock of the Company at an exercise price of $1.72 per share.

On December 31, 1999 the Company forward split its common stock 3.054:1, increasing the number of issued and outstanding common stock from 6,600,000 to 20,156,400.

On March 30, 1998 the Company forward split its common stock 6:1 increasing the number of issued and outstanding common shares from 1,100,000 to 6,600,000.

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

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock to FED shareholders, and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, based on the difference between the fair value and the exercise price of said equity instruments and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the fair value of assets acquired and liabilities assumed as follows: $13 million to deferred compensation for the portion of value of options and warrants exchanged relating to unvested securities, $18.0 million to identifiable intangible assets as valued by an independent appraisal, and $54.6 million to goodwill. Such goodwill is being amortized over a three-year period. The Company recorded a goodwill impairment charge of approximately $32.1 million and approximately $38.8 million in amortization expense related to purchased intangible assets for the year ended December 31, 2001. In accordance with SFAS No. 2, "Accounting for Research and Development Costs," as clarified by Financial Accounting Standards Board Interpretation No. 4, amounts assigned to in-process research and development will be charged to expense as part of the allocation of purchase price. Accordingly, the Company recognized a charge of approximately $12.8 million associated with the write-off of acquired in-process research and technology, which is included in the accompanying consolidated statement of operations for the year ended December 31, 2000.

Note 8 - STOCK-BASED COMPENSATION PLANS

In 1994, FED established the 1994 Stock Plan (the "1994 Plan"), which has been assumed by the Company. The plan provided for the granting of options to purchase an aggregate of 1,286,000 shares of the Common Stock to employees and consultants of FED Corporation.

In 2000, FED established the 2000 Stock Option Plan (the "2000 Plan"), which has been assumed by the Company. On July 16, 2001, the shareholders approved an

increase in the aggregate number of shares of the Company's common stock reserved for issuance under the 2000 Plan from 3,900,000 to 5,900,000 shares. The Plan permits the granting of options and stock purchase rights to employees and consultants of the Company. The 2000 Plan allows for the grant of incentive

stock options meeting the requirements of Section 422 of the Internal Revenue Code of 1986 (the "Code") or non-qualified stock options which are not intended to meet the requirements Section 422 of the Code.

In May 2001, the Company's Board of Directors adopted the eMagin Corporation Employee Stock Purchase Plan (the "Stock Purchase Plan"), under which a total of 750,000 shares of its common stock have been reserved for issuance, subject to the approval of the shareholders of the Company. The shareholders approved the Stock Purchase Plan on July 16, 2001. The Purchase Plan, which is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Code, provides for consecutive, overlapping 24-month offering periods. Each offering period contains four six-month purchase periods. Each participant will be granted an option to purchase the Company's common stock on the first day of each of the six-month purchase periods and such option will be automatically exercised on the last day of each such purchase period. The purchase price of each share of common stock under the Purchase Plan will be equal to 85% of the lesser of the fair market value per share of common stock on the starting date of that offering period or on the date of the purchase. Offering periods begin on the first trading day on or after January 1 and July 1 of each year and terminate 24-months later. The first offering period, however, began on July 16, 2001 and will end on June 30, 2003.

Employees are eligible to participate in the Stock Purchase Plan if they are employed by the Company, or a subsidiary of the Company designated by the Board of Directors, for at least 20 hours per week and for more than five months in any calendar year. The Stock Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 15% of an employee's compensation, subject to certain limitations. Employees may modify or end their participation in the offering at any time during the offering period or on the date of purchase, subject to certain limitations. Participation ends automatically on termination of employment with the Company. The Company's Board of Directors may amend, suspend or terminate the Stock Purchase Plan at any time, except that certain amendments may be made only with the approval of the stockholders of eMagin.

Vesting terms of the options range from immediate vesting to a ratable vesting period of 5-1/2 years. Option activity for the years ended December 31, 2001 and 2000 is summarized as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 1999	--	$ --
Options assumed	3,342,832	2.01
Options granted, post-merger	329,200	9.30
Options exercised	-	-
Options canceled	(281,842)	1.77
Outstanding at December 31, 2000	3,390,190	2.72
Options granted	1,078,594	1.05
Options exercised	-	
Options canceled	(924,063)	2.17

Outstanding at December 31, 2001	3,544,721	2.41
Exercisable at December 31, 2001	1,346,301	

At December 31, 2001, there were 3,555,279 shares available for grant under the 2000 Plan and the 1994 Plan.

Weighted average fair value of options granted in 2001 and 2000 is $0.76 and $2.72, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates ranging from 2.75% to 5.41%; no expected dividend yield, expected lives of 2.96 years; and expected stock price volatility of 128%.

The following table summarizes information about stock options outstanding at December 31, 2001:

	Options Outstanding			Opt	
Range of Exercise Prices	Number Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31,	
$ 0.41 - $1.35	726,196	9.50	0.49	66	
1.72 - 1.72	2,174,795	5.97	1.72	48	
2.25 - 19.50	643,730	7.95	6.90	19	
	3,544,721	7.05	2.41	1,34	

The Company has elected to continue to account for stock-based compensation under APB Opinion No. 25, under which no compensation expense has been recognized for stock options granted to employees at fair market value. Had compensation expense for stock options granted under the 2000 Plan and 1994 Plan been determined based on fair value at the grant dates, the Company's net loss and net loss per share for the years ended December 31, 2001 and 2000 would have been increased to the pro forma amounts shown below.

Net loss:	Net 2001	2000
As reported	$ (68,487,000)	$ (48,167,000)
Pro forma.....	$ (69,479,000)	$ (49,470,000)
Net loss per share:		
As reported	$ (2.73)	$ (2.18)
Pro forma per share.....	$ (2.77)	$ (2.23)

For the year ended December 31, 1999, pro forma net loss and net loss per share would have been the same as the reported net loss and net loss per share.

Warrants

At December 31, 2001, 1,747,082 warrants to purchase shares of common stock are issued, outstanding and exercisable at exercise prices ranging from $1.72 to $26.25.

Note 9 - COMMITMENTS AND CONTINGENCIES

Royalty Payments

The Company is obligated to make minimum annual royalty payments to a corporation commencing January 1, 2001. The minimum royalty of $31,500 per year due under this agreement commences in the first year of the agreement, and increases to minimum royalty payment of $125,000 per year starting in

the sixth year of the agreement. 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 with the corporation. The percentages are on a sliding scale depending on the amount of sales generated. Any minimum royalties paid may be credited against the amounts due based on the percentage of sales.

For the year ended December 31, 2001, the expense related to the minimum royalty payment is included in general and administrative expense in the accompanying consolidated statement of operations.

License and Technology Agreement

In March 1997, FED entered into a technology agreement with a corporation to permit potential commercialization of small-format OLED displays. This agreement was transferred to the Company in the Merger. The Company is dependent upon its license agreement with the corporation for the development and commercialization of its currently planned OLED products. There are no additional payments due under this agreement.

Supply Agreement

Simultaneous with the issuance of common shares in lieu of cash payment for services rendered to a third party (Note 7), the Company entered into a development and supply agreement with the third party.

Operating Leases

The Company leases certain office facilities and office, lab and factory equipment under operating leases expiring through 2004. Certain leases provide for payments of monthly operating expenses. The approximate future minimum lease payments are as follows:

Year ending December 31:	
2002	$ 3,037,000
2003	2,118,000
2004	493,000
Total	$ 5,648,000

Rent expense for the years ended December 31, 2001 and 2000 was approximately $1,199,000 and $1,213,000, respectively. Rent expense for the year ended December 31, 1999 was immaterial.

Litigation

The Company may, from time to time, be a party to litigation arising during the normal course of business. The Company is currently not a party to any litigation.

Note 10 - SUBSEQUENT EVENTS (unaudited)

In January 2002, the Company entered into a $1.0 million bridge loan arrangement with a private investor (the "Investor") in connection with secured note purchase agreement executed by the Company on November 27, 2001 (Note 5). This transaction increased the total amount of the secured convertible loan outstanding under this arrangement to $1,625,000, including amounts previously made available to the Company in connection with the November 27, 2001 secured

note arrangement, net of repayments to certain investors who elected not to reinvest of $250,000. The secured convertible notes accrue interest at a rate of 9.00% per annum and mature on August 30, 2002. Terms of the notes also include a fixed conversion rate of $0.5264 per share. The Company also granted warrants to purchase 921,161 shares of common stock with an exercise price of $0.5468 per share to the Investor. Such warrants are exercisable through January 2005. Certain Investors of the November 27, 2001 financing who elected to remain in the new bridge loan arrangement received resets of the previous conversion rate and warrant exercise prices to the same terms as the new Investor.

In February 2002, the Company completed a private placement of securities with several institutional and individual investors of 3,617,128 shares of common stock at a price per share of $0.6913, generating gross proceeds of approximately $2.5 million. In connection with the financing arrangement, the Company issued warrants to purchase 1,446,852 shares of common stock of the Company at an exercise price of $0.7542 per share. Such warrants are exercisable through February 2005.

In March 2002, the Company entered into an equity line of credit agreement with a private equity fund (the "Fund") whereby the Company has the option, but not the obligation, to sell shares of common stock to the Fund for a three-year period at a price per share, as defined. The agreement provides for certain minimum and maximum monthly amounts up to a maximum of $15 million and, in certain circumstances, up to $20 million.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of FED Corporation:

We have audited the accompanying consolidated statements of operations, shareholders' equity (deficit) and cash flows of FED Corporation (a Delaware corporation in the development stage; see Note 1) and subsidiary for the year ended December 31, 1999 and for the period from inception (January 6, 1992) to December 31, 1999 and the consolidated statements of shareholders' equity for the period from inception (January 6, 1992) to December 31, 1992 and for each of

the seven years ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows for the year ended December 31, 1999 and for the period from inception (January 6, 1992) to December 31, 1999, in conformity with accounting principles generally accepted in the United States.

New York, New York
February 14, 2000 (except for Note 3,
as to which the date is March 15, 2000)

Arthur Andersen LLP

FED CORPORATION (PREDECESSOR)
(a development stage company)

FCONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE PERIOD FROM JANUARY 1, 2000 TO MARCH 15, 2000, THE YEAR ENDED DECEMBER 31, 1999 AND THE PERIOD FROM INCEPTION (JANUARY 6, 1992) TO DECEMBER 31, 1999

	Period from January 1, 2000 to March 15, 2000	1999	Period from inception (January 6, 1992) to December 31, 1999
	(unaudited)		
CONTRACT REVENUES	$568,484	$1,895,426	$14,565,353
Total revenues	568,484	1,895,426	14,565,353
COSTS AND EXPENSES:			
Research and development, net of funding under cost sharing arrangements of $175,000 and $1,148,166, respectively	2,180,519	10,171,387	36,323,800
General and administrative	995,750	5,203,201	15,069,058
Non-cash stock based compensation	7,778,850	--	--
Non-cash charge for induced conversion of debt	--	1,917,391	1,917,391

Total costs and expenses, net	10,955,119	17,291,979	53,310,249
OTHER (EXPENSE):	(2,968,419)	(403,692)	(403,102)
Net loss	$(13,355,049)	$(15,800,245)	$(39,147,998)

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

FED CORPORATION AND SUBSIDIARY
(a development stage company)

FCONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION (JANUARY 6, 1992) TO DECEMBER 31, 1992
AND FOR EACH OF THE SEVEN YEARS ENDED DECEMBER 31, 1999

	Series A		Series B		Series C		Series D	
	Preferred Stock		Preferred Stock		Preferred Stock		Preferred Sto	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amou
BALANCE, at inception (January 6, 1992)	-	$-	-	$-	-	$-	-	$-
Sale of common stock to founder	-	-	-	-	-	-	-	-
Sale of common stock to a trust controlled by founder	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-
BALANCE, December 31, 1992	-	-	-	-	-	-	-	-
Sale of common stock to founder	-	-	-	-	-	-	-	-
Sale of common stock to founder's family	-	-	-	-	-	-	-	-
Repurchase of common stock from founder	-	-	-	-	-	-	-	-
Sale of Series A preferred stock	2,000	20	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-
BALANCE, December 31, 1993	2,000	20	-	-	-	-	-	-
Sale of common stock to founder	-	-	-	-	-	-	-	-
Sale of Series B preferred stock	-	-	10,154	102	-	-	-	-

Sales of common stock	-	-	-	-	-	-	-	-
Sales of common stock to employees	-	-	-	-	-	-	-	-
Sales of common stock to employees and ESPP	-	-	-	-	-	-	-	-
Stock purchases receivable from employees	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-
BALANCE, December 31, 1994	2,000	20	10,154	102	-	-	-	-
Sales of common stock, net of stock issuance costs	-	-	-	-	-	-	-	-
Common stock issued to Director as finder's fee	-	-	-	-	-	-	-	-

	Series F		Series G					Accumu
	Preferred Stock		Preferred Stock		Common Stock		Additional	During
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Develo Stag
BALANCE, at inception (January 6, 1992)	-	$-	-	$-	-	$-	$-	$-
Sale of common stock to founder	-	-	-	-	5,000,000	50,000	(45,000)	-
Sale of common stock to a trust controlled by founder	-	-	-	-	161,000	1,610	119,140	-
Net loss for the period	-	-	-	-	-	-	-	(59,
BALANCE, December 31, 1992	-	-	-	-	5,161,000	51,610	74,140	(59,
Sale of common stock to founder	-	-	-	-	76,000	760	61,490	-
Sale of common stock to founder's family	-	-	-	-	13,333	133	19,867	-
Repurchase of common stock from founder	-	-	-	-	(1,600,000)	(16,000)	14,400	-

Sale of Series A preferred stock	-	-	-	-	-	-	199,980	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	(3,
Net loss for the period	-	-	-	-	-	-	-	(408,
BALANCE, December 31, 1993	-	-	-	-	3,650,333	36,503	369,877	(471,
Sale of common stock to founder	-	-	-	-	100	1	-	-
Sale of Series B preferred stock	-	-	-	-	-	-	40,514	-
Sales of common stock	-	-	-	-	1,047,132	10,471	1,591,786	-
Sales of common stock to employees	-	-	-	-	88,469	885	133,110	-
Sales of common stock to employees and ESPP	-	-	-	-	34,041	340	43,062	-
Stock purchases receivable from employees	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	(18,
Net loss for the period	-	-	-	-	-	-	-	(1,404,
BALANCE, December 31, 1994	-	-	-	-	4,820,075	48,200	2,178,349	(1,894,
Sales of common stock, net of stock issuance costs	-	-	-	-	460,000	4,600	1,107,723	-
Common stock issued to Director as finder's fee	-	-	-	-	61,560	616	153,284	-

	Series A		Series B		Series C		Series D	
	Preferred Stock		Preferred Stock		Preferred Stock		Preferred Sto	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amou
Sales of common stock to employees and ESPP	-	-	-	-	-	-	-	-
Receipt of stock purchases receivable from employees	-	-	-	-	-	-	-	-

Dividends on Series A preferred stock	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-
BALANCE, December 31, 1995	2,000	20	10,154	102	-	-	-	-
Conversion of Series A preferred stock	131,333	1,313	-	-	-	-	-	-
Common stock issued as finder's fee	-	-	-	-	-	-	-	-
Sale of common stock to employees and ESPP	-	-	-	-	-	-	-	-
Exercise of stock options	-	-	-	-	-	-	-	-
Sale of Series B preferred stock	-	-	1,562	16	-	-	-	-
Sale of Series C preferred stock	-	-	-	-	1,156,832	11,568	-	-
Sale of Series D preferred stock	-	-	-	-	-	-	887,304	8,873
Sale of Series E preferred stock	-	-	-	-	-	-	-	-
Costs of private placement of preferred stock	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-
BALANCE, December 31, 1996	133,333	1,333	11,716	118	1,156,832	11,568	887,304	8,873

	Series F		Series G					Accumu
	Preferred Stock		Preferred Stock		Common Stock		Additional	During
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Develo Stag
Sales of common stock to employees and ESPP	-	-	-	-	33,295	333	70,420	-
Receipt of stock purchases receivable from employees	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	(18,

Net loss for the period	-	-	-	-	-	-	-	(3,992,
BALANCE, December 31, 1995	-	-	-	-	5,374,930	53,749	3,509,776	(5,904,
Conversion of Series A preferred stock	-	-	-	-	-	-	(1,313)	-
Common stock issued as finder's fee	-	-	-	-	11,500	115	(115)	-
Sale of common stock to employees and ESPP	-	-	-	-	42,447	424	105,249	-
Exercise of stock options	-	-	-	-	3,125	31	4,656	-
Sale of Series B preferred stock	-	-	-	-	-	-	6,234	-
Sale of Series C preferred stock	-	-	-	-	-	-	4,037,344	-
Sale of Series D preferred stock	-	-	-	-	-	-	4,427,646	-
Sale of Series E preferred stock	-	-	-	-	-	-	5,235,817	-
Costs of private placement of preferred stock	-	-	-	-	-	-	(747,292)	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	(18,0
Net loss for the period	-	-	-	-	-	-	-	(6,021,8
BALANCE, December 31, 1996	-	-	-	-	5,432,002	54,319	16,578,002	(11,944,7

FED CORPORATION AND SUBSIDIARY
(a development stage company)

FCONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Continue
FOR THE PERIOD FROM INCEPTION (JANUARY 6, 1992) TO DECEMBER 31,
AND FOR EACH OF THE SEVEN YEARS ENDED DECEMBER 31, 1999

Series A		Series B		Series C		Series D	
Preferred Stock		Preferred Stock		Preferred Stock		Preferred Sto	
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amou

BALANCE, December 31, 1996	133,333	$ 1,333	11,716	$ 118	1,156,832	$11,568	887,304
Sale of common stock to employees and ESPP	-	-	-	-	-	-	-
Costs of private placement of preferred stock	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-
BALANCE, December 31, 1997	133,333	1,333	11,716	118	1,156,832	11,568	887,304
Sale of common stock to employees and ESPP	-	-	-	-	-	-	-
Exercise of stock options	-	-	-	-	-	-	-
Sale of Series B preferred stock	-	-	2,778	28	-	-	-
Sale of Series F preferred stock	-	-	-	-	-	-	-
Costs of private placement of preferred stock	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-
BALANCE, December 31, 1998	133,333	1,333	14,494	146	1,156,832	11,568	887,304
Sale of Series G preferred stock							

and resulting accretion to liquidation value	-	-	-	-	-	-	-

	Series F		Series G					Accumu
	Preferred Stock		Preferred Stock		Common Stock		Additional	During
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Develo Stag
BALANCE, December 31, 1996	-	$ -	-	$ -	5,432,002	$ 54,319		$16,578,0
Sale of common stock to employees and ESPP	-	-	-	-	12,728	128		53,2
Costs of private placement of preferred stock	-	-	-	-	-	-		(7,8
Dividends on Series A preferred stock	-	-	-	-	-	-		-
Net loss for the period	-	-	-	-	-	-		-
BALANCE, December 31, 1997	-	-	-	-	5,444,730	54,447		16,623,4
Sale of common stock to employees and ESPP	-	-	-	-	8,396	84		38,3
Exercise of stock options	-	-	-	-	5,000	50		12,4
Sale of Series B preferred stock	-	-	-	-	-	-		16,6
Sale of Series F preferred stock	1,915,471	19,155	-	-	-	-		11,473,6
Costs of private placement of preferred								

stock	7,300	73	-	-	-	-	(134,5
Dividends on Series A preferred stock	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-
BALANCE, December 31, 1998	1,922,771	19,228	-	-	5,458,126	54,581	28,029,9
Sale of Series G preferred stock and resulting accretion to liquidation value	-	-	681,446	6,814	-	-	4,702,8

	Series A		Series B		Series C		Series D	
	Preferred Stock		Preferred Stock		Preferred Stock		Preferred Sto	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amou
Dividend on Series A preferred stock	-	-	-	-	-	-	-	
Induced conversion of preferred stock and debt to common stock	(133,333)	(1,333)	(14,494)	(146)	(1,156,832)	(11,568)	(887,304)	
Sale of common stock to employees and ESPP	-	-	-	-	-	-	-	
Common stock options and warrants issued to nonemployees	-	-	-	-	-	-	-	
Beneficial								

conversion features upon conversion of debt	-	-	-	-	-	-	-	
Stock split (Note 8)	-	-	-	-	-	-	-	
Net loss for the period	-	-	-	-	-	-	-	
BALANCE, December 31, 1999	-	$ -	-	$ -	-	$ -	-	

	Series F Preferred Stock		Series G Preferred Stock		Common Stock		Additional Paid-in	Accumu During Develo
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Stag
Dividend on Series A preferred stock	-	-	-	-	-	-	-	-
Induced conversion of preferred stock and debt to common stock	(1,922,771)	(19,228)	(681,446)	(6,814)	25,197,315	251,973	12,676,0	
Sale of common stock to employees and ESPP	-	-	-	-	8,326	83	15,5	
Common stock options and warrants issued to nonemployees	-	-	-	-	-	-	234,0	
Beneficial conversion features upon conversion of debt	-	-	-	-	-	-	1,333,3	
Stock split								

(Note 8)	-	-	-	-	(26,283,178)	(262,831)	262,8
Net loss for the period	-	-	-	-	-	-	-
BALANCE, December 31, 1999	-	$ -	-	$ -	4,380,589	$43,806	$47,254,4

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

FED CORPORATION (PREDECESSOR)
(a development stage company)

FCONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1, 2000 TO MARCH 15, 2000, THE YEAR ENDED DECEMBER 31, 1999 AND FOR THE PERIOD FROM INCEPTION (JANUARY 6, 1992) TO DECEMBER 31, 1999

	Period from January 1, 2000 to March 15, 2000 (unaudited)	1999	Period From Inception (January 6, 1992) to December 31, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(13,355,049)	$(15,800,245)	$(39,147,998)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	325,095	1,625,081	4,804,920
Deferred rent	--	--	-
Gain on sale of assets	--	--	(69,525)
Noncash charge for induced conversion of debt	--	1,917,391	1,917,391
Noncash charges for value of warrants granted and amortization of original issue discount	--	203,000	203,000
Noncash charge due to beneficial conversion feature	--	157,500	157,500
Noncash charge for stock based compensation	7,778,850	--	--
Amortization of debt discount	2,940,339	--	--
Changes in operating assets and liabilities:			
Contract receivables	(58,659)	188,755	(73,304)
Costs and estimated profits in excess of billings on contracts in progress	(397,841)	3,069,008	(221,723)
Prepaid expenses and other current assets	(178,058)	129,840	140,779
Deposits and other assets	--	23,871	23,871
Accounts payable, accrued expenses,			

and other current liabilities	488,516	131,112	2,110,597
Advance payments on contracts to be completed	---	(246,518)	--
Net cash used in operating activities	(2,456,807)	(8,601,205)	(30,154,492)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment	(57,574)	(250,193)	(3,154,640)
Acquisition of business, net of cash acquired	--	--	(547,503)
Proceeds from the sale of assets	--	--	229,550
Net cash used in investing activities	(57,574)	(250,193)	(3,472,593)

	Period from January 1, 2000 to March 15, 2000 (unaudited)	1999	Period From Inception (January 6, 1992) to December 31, 1999
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from senior notes, net of issuance costs	--	--	3,968,958
Proceeds from short-term debt	--	3,333,333	3,333,333
Proceeds from notes payable	--	590,232	590,232
Proceeds from sales of common stock, net of issuance costs	1,269,378	15,608	3,419,160
Proceeds from sales of preferred stock, net of issuance costs	--	3,752,407	23,856,998
Proceeds from short-term debt	1,923,300	--	--
Payments of obligations under capital lease	(92,748)	--	(823,128)
Net cash provided by financing activities	3,099,930	7,691,580	34,345,553
Net (decrease) increase in cash and cash equivalents	585,549	(1,159,818)	718,468
CASH AND CASH EQUIVALENTS, beginning of period	718,468	1,878,286	--
CASH AND CASH EQUIVALENTS, end of period	$ 1,304,017	$ 718,468	$ 718,468
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			

Interest paid	$ 11,918	$ 242,000	$ 930,593
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Conversion of preferred stock to common stock	$ -	$ 7,576,862	$ -
Conversion of senior debt to common stock	$ -	$ 4,000,000	$ -
Acquisition of business-			
Fair value of assets acquired, net of cash acquired	--	$ --	$ --
Net book value assumed	--	--	--
Excess purchase price over net assets acquired	--	--	--
Value of preferred stock issued	--	--	--
Net cash paid for acquisition	--	$ --	$ --

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

FED CORPORATION (PREDECESSOR)
(a development stage company)

Notes to the Consolidated Financial Statements

1. NATURE OF BUSINESS AND DEVELOPMENT STAGE RISKS

FED Corporation ("FED", together with its subsidiary the "Company") was formed on January 6, 1992, to develop, manufacture and market field emitter devices or flat panel displays. In January 1994, the Company moved its principal office from North Carolina to New York State. In connection with this move, a Delaware corporation was established and the North Carolina Corporation was statutorily merged into the Delaware corporation with the latter being the survivor. During 1998, FED acquired Virtual Vision, Inc. ("Virtual Vision," or the "Subsidiary"), a head-mounted display technology company. Virtual Vision develops and markets head-mounted display systems for standalone and wireless computing in commercial, industrial, and military applications.

The Company continues to be a development stage company, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises", as it continues to devote substantially all of its efforts to establishing a new business, and it has not yet commenced its planned principal operations. Revenues earned by the Company to date are primarily related to research and development type contracts and are not related to the Company's planned principal operations of the commercialization of products using OLED technology.

Since inception, the Company has entered into research and development cost-sharing arrangements, as well as research and development contracts, with several government agencies and private industry. Through December 31, 1999, such arrangements have provided total funding of approximately $36.6 million

through cost sharing arrangements and contract revenues.

Through December 31, 1999, the Company had incurred development stage losses totaling approximately $39 million, and at December 31, 1999, had a working capital deficit of $3.3 million. The Company's future success is dependent upon its ability to continue to raise capital for, among other things, (1) its research and development efforts, (2) hiring and retaining key employees, (3) satisfaction of its commitments and (4) the successful development and marketing of its products.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue and Cost Recognition

The Company has historically earned revenues from certain of its research and development activities under both firm fixed-price contracts and cost-type contracts, including some cost-plus-fee 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.

Research and Development/Cost Sharing Arrangements

To date, activities of the Company include the performance of research and development under cooperative agreements with United States Government agencies. Current industry practices provide that costs and related funding under such agreements be accounted for as incurred and earned.

The Company has entered into three cost sharing arrangements with an agency of the U.S. Government. The Company has incurred research and development costs and earned funding under these agreements as follows:

	1999
Unfunded research and development	$ 8,997,000
Research and development costs	2,322,000
Funding received	(1,148,000)
	$ 10,171,000

Although it is not under any obligation, the Company may incur approximately $6,700,000 of additional costs on these efforts. If such costs, as defined, are incurred, the government is obligated to reimburse the Company for $3,326,000 of such costs.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of overnight commercial paper and are stated at cost, which approximates market, and are considered available for sale.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires the classification of debt and equity securities based on

whether the securities will be held to maturity, are considered trading securities or are available-for-sale. Classification within these categories may require the securities to be reported at their fair market value with unrealized gains and losses included either in current earnings or reported as a separate component of shareholders' equity, depending on the ultimate classification.

Comprehensive Income

The Company complies with the provisions of SFAS No. 130, "Reporting Comprehensive Income", which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distributions to owners, for the period in which they are recognized. Comprehensive income is the total of net income and all other non-owner changes in equity (or other comprehensive income) such as unrealized gains or losses on securities classified as available-for-sale, foreign currency translation adjustments and minimum pension liability adjustments. Comprehensive and other comprehensive income must be reported on the face of annual financial statements. The Company's operations did not give rise to any material items includable in comprehensive income which were not already in net income for the year ended December 31, 1999. Accordingly, the Company's comprehensive income is the same as its net income for all periods presented.

Equipment and Leasehold Improvements

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

Goodwill

Excess purchase price over net assets acquired ("goodwill") is amortized on a straight-line basis over the estimated period of benefit of the business acquired. Goodwill related to the acquisition of Virtual Vision of approximately $4,110,000, net of accumulated amortization of $1,439,000 at December 31, 1999, is being amortized over a period of five years.

Long-Lived Assets

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed," establishes financial accounting and reporting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill. SFAS No. 121 requires, among other things, that assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be realizable considering, among other factors, expected future undiscounted operating cash flows of the related asset.

Income Taxes

Deferred income taxes are recorded by applying enacted statutory tax rates to temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. At December 31, 1999, the Company has net deferred tax assets of approximately $14.3 million, primarily resulting from the future tax benefit of net operating loss carryforwards discussed below. Such net deferred tax assets are fully offset by valuation allowances because of

the uncertainty as to their future to be realized.

At December 31, 1999, the Company has net operating loss carryforwards of approximately $35.8 million, which expire through 2019, available to offset future taxable income. Pursuant to Section 382 of the Internal Revenue Code, the usage of a portion of these net operating loss carryforwards is limited due to changes in ownership that have occurred. Additionally, the transaction discussed in Note 3, will result in a further limitation of the use of such net operating loss carryforwards.

Stock-Based Compensation

The Company accounts for stock-based compensation issued to employees in accordance with Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25"), "Accounting for Stock Issued to Employees." The Company, as permitted, elected not to adopt the financial reporting requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," for stock-based compensation granted to employees. Accordingly, the Company has disclosed in the notes to the financial statements the pro forma net loss for the periods presented as if the fair-value-based method was used in accordance with the provisions of SFAS No. 123.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Boards issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability and be measured at its fair value. Additionally, any changes in the derivative's fair value are to be recognized currently in earnings, unless specific hedge accounting criteria are met. This statement is effective for fiscal years beginning after June 15, 2000. The Company does not believe that adoption of this statement will have a material impact on its consolidated financial statements.

3. ACQUISITION

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the merger, FDC issued approximately 10.5 million shares of its common stock to FED shareholders and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4

million of value relating to the shares issued (at a fair value of $7 per share, the value of a simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, based on the difference between the fair value and the exercise price of said equity instruments, and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting.

4. ACQUISITION OF VIRTUAL VISION

In March 1998, the Company acquired all of the outstanding stock of Virtual Vision for a total purchase price of $5,000,000, consisting of $500,000 in cash and 750,000 shares of the Company's Series F Preferred Stock valued at $6.00 per share. The acquisition was accounted for under the purchase method of accounting and the results of operations of Virtual Vision have been included in the consolidated financial statements since the date of acquisition. The purchase price was allocated based on the fair value of the assets acquired, determined by management's estimates, as supported by appraisal. Purchase price in excess of net assets acquired of approximately $4.1 million resulted in the acquisition, which is being amortized over a period of five years. Pro forma results of operations for the periods prior to the acquisition are not materially different than the accompanying historical statements of operations presented for the Company.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Depreciation and amortization expense of equipment and leasehold improvements for the year ended December 31, 1999 amounted to approximately $810,000.

Additionally, from time to time, the Company makes deposits on certain equipment that may ultimately be purchased by a financing company and leased to the Company. Amounts paid by the Company for such deposits totaled approximately $14,000 for the year ended December 31, 1999.

6. DEBT

Senior Notes Payable

In April 1995, the Company completed a private placement for the issuance and sale of its 5% senior notes in the aggregate principal amount of $4,000,000, which was to mature in full on April 12, 2002, at an interest rate of 5% per annum payable quarterly. In July 1999, as part of the Company's recapitalization (Note 8), the note was converted into 5,072,464 shares of the Company's common stock. Under the original terms of the notes, the holders of the senior notes had the right to convert the unpaid principal balance, in multiples of $1,000, into common stock at the price of $3.45 per share at any time, subject to provision for anti-dilution. In order to induce the note-holders to convert such notes, the Company provided for a conversion rate of 4.375 shares of common stock, for each share of common stock otherwise provided for under the original conversion terms. The Company has recorded an expense of $1,917,000 in the accompanying statement of operations for the year ended December 31, 1999 as a result of the conversion, based on an estimated fair value of $3.40 per share, the value of a common share based on the Merger discussed in Note 3.

Bridge Loans

In September 1999, the Company entered into two $1,000,000 convertible loans for an aggregate of $2,000,000. Each loan bears interest at 8% and matures in June 2000. The loans are convertible at the option of the holder into shares of the

Company's common stock at a purchase price equal to the per share value of the Company's most recent equity financing. In connection with these loans, the Company issued warrants for the purchase of 167,000 shares of the Company's common stock at an exercise price of $12.00 per share. The intrinsic value of these warrants of $140,000 has been recorded as original issue discount, resulting in a reduction in the carrying value of this debt. The original issue discount will be amortized into interest expense over the period of the debt.

In December 1999, the Company borrowed $1,333,333 from a corporation under the terms of a convertible note. The note was convertible into 392,157 shares of common stock under its original terms. The loan bears interest at 8% annually and matures in May 2000. In connection with the Merger discussed in Note 3, this note converted into common stock. Based on the terms of the merger the conversion terms of the debt provide for a beneficial conversion feature. The value of the beneficial feature is recorded as an offset to the debt account and will be amortized into interest expense over the original issuance term. At the merger date, the remaining discount will be amortized into interest expense.

7. LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 1999:

	1999
Notes payable (a)	$ 653,000
Liabilities assumed from Virtual Vision (b)	100,000
Capital leases (c)	57,000
	810,000
Less-Current portion	269,000
	$ 541,000

a. In May 1999, the Company entered into a $625,000 three-year loan agreement collateralized by its fixed assets. The aggregate remaining principal balance is $508,421 at December 31, 1999 and payments are due through 2002 at an interest rate of 13.88%.

   In June 1999, the Company entered into a $155,000 five-year uncollateralized loan agreement. The proceeds were used to finance a leasehold improvement. The aggregate principal balance is $144,964 at December 31, 1999 and payments are due through 2004 at an interest rate of 18%.

b. In connection with the acquisition of Virtual Vision, the Company assumed a liability relating to a previous acquisition made by Virtual Vision. At December 31, 1999, the remaining payments under this agreement totaled $100,000, payable $50,000 per year for each of the next two years. This agreement also provides for additional payments over the $50,000 per year should certain technology acquired be used in consumer applications, whereby payments would be required based on certain percentages of licensing and sales revenues.

c. The Company is party to a capital lease for certain equipment with aggregate remaining principal balance totaling $56,868 at December 31, 1999, excluding interest, due through 2003 at an interest rate of 7.27%

Maturity of debt as of December 31, 1999 is as follows:

2000	$269,000
2001	351,000
2002	115,000
2003	49,000
2004	26,000
	$810,000

8. SHAREHOLDERS' EQUITY

In March 2000, FED repriced approximately 325,000 common stock options issued to employees. The repricing resulted in a non-cash compensation expense of approximately $2.7 million for the period ended March 15, 2000.

In addition, FED repriced approximately 108,000 warrants issued to outside consultants and organizations that provided bridge loans and funding commitments to the Company. The repricing resulted in a non-cash charge of approximately $1.2 million, which is included in the accompanying consolidated statement of operations for the Company period ended March 15, 2000.

In March 2000, FED issued options to purchase common stock to employees at an exercise price below the fair market value on the date of grant of $7.00. These options vest over a period of 1 - 60 months with a minimum lockup period of 18 months. As a result, the Company recorded deferred compensation expense in the amount of approximately $12.5 million, which will be amortized over the vesting period of the options.

FED also issued warrants to shareholders at an exercise price below the fair market value on the date of grant. As a result, FED recorded a one-time compensation expense of approximately $2.5 million for the period ended March 15, 2000.

The recipients of the repriced options and warrants were required to execute lock-up agreements that prohibit disposition of the underlying shares for a period of 18 months following the Merger. Thereafter the recipients may transfer no more that 20% of the underlying shares in the 6 months following the end of the 18-month period, and the balance of the underlying shares may be transferred 24-27 months after the Merger.

Common Stock

In July 1999, the Company effected a 1 for 7 reverse stock split, resulting in a reduction of total common shares outstanding from approximately 30.7 million shares to approximately 4.4 million shares.

During 1999, the Company amended its Certificate of Incorporation and was authorized to issue 50,000,000 shares of its Common Stock.

Preferred Stock

Through 1999, the Company's Certificate of Incorporation provided for the issuance of a total of 5,000,000 shares of preferred stock, which could be issued in various series.

Through 1998, the Company had issued an aggregate of 4,988,827 of Series A through F preferred stock. The various series generally provided for a liquidation preference equal to the original purchase price of the preferred stock, plus accrued but unpaid dividends, if declared, and were generally convertible at a rate of one share of preferred for one share of common, at the option of the holder.

During 1999, the Company issued 681,446 shares of Series G preferred stock, generating aggregate proceeds of approximately $3,847,000. In connection with the issuance of the Series G preferred, the Company offered exchange credits whereby those purchasers of Series G preferred, also holders of preferred Series D, E and F, would exchange Series D, E and F preferred for upgrades to Series D1, E1 and F1 preferred.

The Series G preferred provided for an immediate liquidation value of $7.05 per share, in excess of the purchase price. Accordingly, a charge of approximately $957,000 was recorded against retained earnings to accrete the value of the preferred stock to its liquidation value.

In July 1999, the Company induced conversion of all preferred series by providing for conversion rates and terms that were more beneficial than the original terms. The conversion of all preferred series resulted in the issuance of 20,124,851 shares of the Company's common stock, 14,474,579 shares in excess of the number of shares that would have been issued under the original terms of the preferred series. Accordingly, a charge to retained earnings of approximately $7,000,000 has been recorded, based on a fair value of approximately $3.40 per common share, the fair value attributable to the Company's common stock in the Merger discussed in Note 3.

9. STOCK-BASED COMPENSATION PLANS

The Company has two stock-based compensation plans, described below, which provide for the grant at fair market value. The Company applies APB Opinion No. 25 and related interpretations of accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan. Had compensation cost for the Company's two stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net loss would have been the pro forma amounts indicated below:

	1999
Net loss as reported	$ (15,800,000)
Net loss pro forma	(16,656,000)

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1995, and additional awards in future years are not anticipated.

Stock Option Plan

As amended in the Certificate of Incorporation, the Company's Stock Plan (the "Plan") permits the granting of options to purchase an aggregate of 4,500,000 shares of the Company's Common Stock to employees and consultants of the Company. The Plan also permits the granting of stock purchase rights to employees and consultants of the Company. Under the Plan, the Company may grant either incentive or nonstatutory stock options; however, incentive options may

only be granted to employees. The exercise price of an incentive stock option may not be less than the fair market value, as estimated by management, of the Company's common shares on the date such option is granted. The exercise price of a nonstatutory stock option may be less than the fair market value on the date of grant. In accordance with SFAS No. 123, any grants to other than employees of the Company, and certain directors, will result in a charge on earnings based to the fair value of the instruments granted.

Vesting terms of the options range from immediate vesting of all options to a ratable vesting period of 5-1/2 years. Option activity for the year ended December 31, 1999 is summarized as follows (all amounts have been restated to reflect the Company's 1 for 7 reverse stock split (Note 8)):

	1999	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	288,875	$ 18.13
Options granted	155,666	21.00
Options exercised	-	-
Options forfeited	(22,718)	22.43
Options canceled	(46,521)	21.68
Outstanding at end of year	375,302	18.59
Exercisable at end of year	283,389	
Weighted average fair value of options granted	$ 14.84	

At December 31, 1999, there were 267,555 shares available for grant under the Plan.

At December 31, 1999, there were 369,136 warrants issued and included in the Black-Scholes option pricing model for pro forma purposes.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1999 and 1998, respectively: risk-free interest rate of 4.49% and 5.29%; no expected dividend yield, expected lives of 2.6 and 5.3 years; and .78 and 0 expected stock price volatility in 1999 and 1998, respectively. Exercise prices for outstanding options at December 31, 1999 range from $5.20 - $38.00.

The following table summarizes information about stock options outstanding at December 31, 1999:

	Options Outstanding			Options
Range of Exercise Prices	Number Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 19

$ 5.25 - $15.00	120,302	5 years	$ 11.23	124,971
15.01 - 20.00	76,014	5.9 years	17.99	52,379
20.01 - 25.00	156,334	4.9 years	21.80	106,382
25.01 - 40.00	22,652	8.2 years	37.53	5,143
	375,302			288,875

Employee Stock Purchase Plan

During 1994, the Company adopted a noncompensatory Employee Stock Purchase Plan (the "ESPP"), under which eligible employees may contribute up to 20% of their base earnings, through payroll deductions, toward the purchase of the Company's Common Stock. The employees' purchase price is derived from a formula based on the fair market value of the Common Stock. A total of 200,000 shares of Common Stock are reserved for issuance under the ESPP, of which 8,326 were purchased by employees during 1999. No compensation expense has been recorded in connection with these transactions to date as the aggregate differences between the purchase price and the fair value of the common stock purchased have been immaterial.

Warrants

In June 1999, the Company issued a warrant to purchase 600,000 shares of the Company's common stock to an entity for a commitment to participate in future

financings. The warrant is exercisable for a three year period at an exercise price of $12 per share. The exercise price is subject to change for antidilution effects, as defined. The intrinsic value of this warrant of approximately $71,000 was charged to the statement of operations for the year ended December 31, 1999.

10. COMMITMENTS

Royalty Payments

In 1992, the Company entered into a license agreement with the Microelectronics Center of North Carolina ("MCNC"), granting the Company exclusive rights to all inventions and patents developed by MCNC involving field emission technology. The Company is obligated to pay a royalty in connection with the sale of products related to certain technologies of .1% to 2%, as defined, with minimum royalty payments of $50,000 per year through 1997 and $75,000 per year thereafter for as long as any one of the patents remains valid and outstanding. In 1999, the Company terminated this license agreement.

The Company, as a result of its acquisition of Virtual Vision (Note 4) was obligated to pay royalties to Insight Corporation ("Insight") on their license and sales revenues allocable to the patent application and patent acquired from Insight. If royalties payable in any year are less than $75,000, the Company may pay Insight the deficiency and receive a credit against royalties payable in future years. In 1999, the Company elected not to pay the deficiency and Insight exercised its right to repurchase the patent application and patent for $75,000. There was no royalty expense incurred during 1999.

License and Technology Agreement

In March 1997, the Company entered into a technology agreement with a corporation to permit potential commercialization of small-format OLED displays. The Company is dependent upon its license agreement with the corporation for the

development and commercialization of its currently planned OLED products. Payments are due under evaluation and license agreements based on the achievement of certain milestones in phases of the agreements. Payments totaling $650,000 for the year ended December 31, 1999 was charged to research and development expense under various phases of these agreements. Based on the remaining phases of the current agreements, the Company will be required to make additional payments of $250,000 in 2001, if the remaining phases of the agreements are achieved.

Operating Leases

The Company leases certain office facilities and office, lab and factory equipment under operating leases expiring through January 2004. Certain leases provide for payments of monthly operating expenses. The approximate future minimum lease payments are as follows:

Year ending December 31:	
2000	$2,879,000
2001	2,306,000
2002	1,046,000
2003	915,000
2004	383,000
	$7,529,000

For the year ended December 31, 1999, rent expense was approximately $2,813,000.

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

None

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Our executive officers and directors, and their ages and positions are:

Name	Age	Position
Gary W. Jones (1).....	46	Chairman, Chief Executive Officer, Pr
K. C. Park.....	65	President, Virtual Vision, Inc.
Edward V. Flynn.....	57	Chief Financial Officer, Treasurer
Susan K. Jones.....	50	Chief Marketing and Strategy Officer,
Webster E. Howard.....	66	Chief Technology Officer
Claude Charles (2)	63	Director
Ajmal Khan (1,2).....	38	Director
Jack Rivkin (1) (2) (3).....	61	Director

Gary W. Jones has served as our Chairman, Chief Executive Officer, and President since 1992. Mr. Jones has over 25 years of experience in both public and private companies in the areas of business development, high volume manufacturing, product development, research, and marketing. Previously, Mr.

Jones managed both semiconductor manufacturing and research and development programs at Texas Instruments. Mr. Jones is a director, a member of the Executive Committee of the Board, and Chairman of the Technology Committee of the United States Display Consortium. Mr. Jones received a B.S. in electrical engineering and physics from Purdue University.

Dr. K.C. Park was named President of our wholly owned subsidiary, Virtual Vision, Inc., in January 2002 after serving as our Executive Vice President of International Operations since June 1998. During his twenty-seven year tenure with IBM he managed flat panel display and semiconductor programs at the IBM Watson Research Center, directed the corporate display programs at the IBM Corporate Headquarters, and established Technical Operations in IBM Korea and served as Senior Managing Director. Dr. Park joined LG Electronics in 1993 as Executive Vice President and initiated and led corporate-wide efforts to shift the major emphasis of the corporation into multimedia. Immediately prior to joining eMagin, Dr. Park served as Executive Vice President of Reveo Inc. Dr. Park holds a B.S. from the University of Minnesota, an M.S. from MIT, and a Ph.D. in Solid State Chemistry from the University of Minnesota and an MBA from New York University.

Edward V. Flynn, Chief Financial Officer and Treasurer, joined eMagin in February 1994 as Vice President of Finance and Controller. Previously, Mr. Flynn was employed by the IBM Corporation for over 29 years in senior financial and consulting positions where he held responsibilities for both domestic and

international financial management with assignments in treasury, accounting, financial planning, pricing, financial system development, and management reporting and analysis. He consolidated the financial results of IBM's operating results in Europe and provided accounting, reporting and functional guidance to over 70 locations in Europe, Africa and the Middle East. Mr. Flynn received his accounting degree from St. John's University and MBA in financial management from Iona College.

Susan K. Jones has served as Executive Vice President and Secretary since 1992, and assumed responsibility of Chief Marketing and Strategy Officer in 2001. Ms. Jones has 25 years of industrial experience, including senior research, management, and marketing assignments at Texas Instruments and Merck, Sharp, & Dohme Pharmaceuticals. Ms. Jones serves on the boards or chairs committees for industry organizations including IEEE, SPIE, and SID. Ms. Jones served as a director of FED Corporation from 1993 to 2000. Ms. Jones graduated from Lamar University with a B.S. in chemistry and biology, holds more than a dozen patents, and has authored more than 100 papers and talks.

Dr. Webster E. Howard was named Chief Technology Officer in 2001, after serving as Vice President, of Technology Development since 1996. He joined IBM in 1961 and, since 1973, he has focused on display technology, managing projects in plasma displays, thin film electroluminescence, CRTs, and thin film transistor/liquid crystal displays. The latter project led to the formation of DTI, the joint venture between IBM and Toshiba. In 1993, he joined AT&T as a director in the High-Resolution Technologies division of AT&T Global Manufacturing and Engineering. Dr. Howard is a Fellow of the American Physical Society, the IEEE, and the Society for Information Display, as well as being a member of Sigma Xi. He is past-president of the Society for Information Display and is a former member of the IBM Academy of Technology. He has authored 55 papers and presentations. Dr. Howard received his BS from Carnegie-Mellon University and his A.M. and Ph.D. from Harvard University, all in Physics.

Directors

Claude Charles has served as a director since April of 2000. Mr. Charles has served as President of Great Tangley Corporation since 1999. From 1996 to 1998 Mr. Charles was Chairman of Equinox Group Holdings in Singapore. Mr. Charles has also served as a director and in senior executive positions at SG Warburg and Co. Ltd., Peregrine Investment Holdings, Trident International Finance Ltd., and Dow Banking Corporation. Mr. Charles holds a B.S. in economics from the Wharton School at the University of Pennsylvania and a M.S. in international finance from Columbia University.

Ajmal Khan has served as a director since March of 2000. Mr. Khan is President and CEO of Verus International Group Limited, an investment firm, and has served as its President and Chief Executive Officer since its inception in 1998. Mr. Khan serves on the board of directors of Wattage Monitor Inc., PredictIt Inc., and iParty Corp.

Jack Rivkin has served as a director since June of 1996. Mr. Rivkin is the former Executive Vice President of Citigroup Investments Inc., and a director of Greenwich Street Capital Partners. He previously served as Vice Chairman and a director of Smith Barney. Mr. Rivkin's prior industry experience includes

positions at Procter and Gamble, Mitchell Hutchins, Paine Webber and Lehman Brothers. Mr. Rivkin serves on the board of directors of On2.com and Enherent Corporation Group. Mr. Rivkin holds an engineering degree in metallurgy from the Colorado School of Mines and an MBA from Harvard University.

Information concerning Gary W. Jones, also a Director of the Company and the Chairman of our Board, is provided above with his officer profile.

General Information Concerning the Board of Directors

The Board of Directors of eMagin is classified into three classes: Class A, Class B and Class C. Each Class A director will hold office until the 2002 Annual Meeting of our stockholders. Currently, Mr. Gary Jones and Mr. Jack Rivkin are the Class A directors. Each Class B director will hold office until the 2003 Annual Meeting of our stockholders. Currently, Mr. Ajmal Kahn is the sole Class B director. Class C directors will hold office until the 2004 Annual Meeting of our stockholders. Currently, Mr. Claude Charles is the sole Class C director. In each case, each director will hold office until his successor is duly elected or appointed and qualified in the manner provided in eMagin's Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws, or as otherwise provided by applicable law.

The Board of Directors held fourteen meetings during 2001. Each incumbent director attended at least 75% of the aggregate of all meetings of the Board of Directors during the period for which he was a director and the meetings of the committees on which he or she served. The Board of Directors has established an Executive Committee, an Audit Committee and a Compensation Committee.

During 2001, the Company's directors received compensation for service to the Company as director. (See "Executive Compensation - Compensation of Directors".) Directors also received reimbursement of ordinary expenses incurred in connection with attendance at such meetings.

Due to other time commitments, Messrs. Reddy and Solomon resigned as directors of the Company in December 2001. There were no disagreements with management policy or procedures relating to such resignations.

Executive Officers of the Company

Officers are appointed to serve at the discretion of the Board of Directors. Except for Mr. Gary Jones, who is the spouse of Ms. Susan Jones, the Company's Executive Vice President and Secretary, none of the executive officers or directors of the Company has a family relationship with any other executive officer or director of the Company.

Committees of the Board of Directors

The Audit Committee is responsible for (i) determining the adequacy of the Company's internal accounting and financial controls, (ii) reviewing the results of the audit of the Company performed by the independent public accountants, and (iii) recommending the selection of independent public accountants. Messrs. Charles and Rivkin and Mr. Solomon, prior to his resignation from the Board in December 2001, were members of the Audit Committee during fiscal 2001. The Audit Committee met 4 times during fiscal 2001.

The Compensation Committee determines matters pertaining to the compensation of certain executive officers of the Company and administers the Company's stock option, incentive compensation, and employee stock purchase plans. Messrs. Rivkin and Reddy, prior to his resignation from the Board in December 2001, were members of the Compensation Committee during fiscal 2001 and met once during fiscal 2001.

The Executive Committee has authority to act for the Board on most matters during intervals between Board meetings, subject to Board approval. Messrs. Jones, Khan, and Rivkin were members of the Executive Committee during fiscal 2001. The Executive Committee met 2 times during the fiscal 2001.

Section 16(a) Beneficial Ownership Reporting Compliance

Based on the Company's review of copies of all disclosure reports filed by directors and executive officers of the Company pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, the Company believes that there was compliance with all filing requirements of Section 16(a) applicable to directors and executive officers of the Company during fiscal 2001.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the total compensation for services in all capacities to the Company or its subsidiary for the last three fiscal years of those persons who at December 31, 2001, were (i) the chief executive officer of the Company and (ii) the other four most highly compensated executive officers of the Company (collectively, the "named executive officers"). Prior to establishment of the Compensation Committee, the Chief Executive Officer and Board elected not to pay bonuses as part of executive compensation during the early development stage years of the Company. The Compensation Committee plans to allocate a bonus in stock options for the fiscal year 2001 during 2002.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus(1)	Other A Compens
Gary Jones.....	2001	234,393	(1)	
Chief Executive Officer	2000	227,863	-	
	1999	188,377	-	
Andrew P. Savadelis.....	2001	255,769	112,500(2)	
Former Executive Vice President and Chief Financial Officer	2000	91,667(2)	37,500(2)	
Susan K. Jones.....	2001	189,207	(1)	
Executive Vice President	2000	183,837	-	
Chief Strategy Officer	1999	153,224	-	
K.C. Park.....	2001	171,877	-	
President, Virtual Vision	2000	168,623	-	
	1999	141,010	-	
Webster E. Howard.....	2001	173,923	-	
Chief Technology Officer	2000	171,046	-	
	1999	144,668	-	
Edward V. Flynn.....	2001	133,000	-	
Chief Financial Officer,	2000	129,893	-	
Treasurer	1999	108,610	-	

(1) The Compensation Committee has allocated a bonus of 750,000 stock options to Gary W. Jones and 350,000 stock options to Susan K. Jones for the year 2001 during 2002.

(2) Mr. Savadelis was employed for less than a full year in 2000. As such, his salary amount for that year represents salary earned from his start date through the end of the fiscal year. Mr. Savadelis' compensation included an annual salary of $250,000 and a non-milestone-driven bonus of $150,000 to be paid quarterly in the period from September 11, 2000 to September 10, 2001. $37,500 of the non-milestone-driven bonus was paid to Mr. Savadelis

during 2000. In addition, the Company paid relocation assistance in the amount of $50,000 in October, 2000. Mr. Savadelis ceased to be employed by the Company in January 2002.

Stock Options and Certain Other Compensation

The following table presents the stock options granted to the named executive officers in fiscal 2001 under the Company's 2000 Stock Option Plan:

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price per Share (3)	Expiration Date	Annua
Gary W. Jones(2)	147,183	15.4%	$0.41	12/04/11	$
A. P. Savadelis(2)	176,056	18.4%	$0.41	12/04/11	
Webster Howard(1)	60,000	6.3%	$1.35	10/18/06	
Edward V. Flynn(2)	7,042	0.7%	$0.41	12/04/11	
Webster Howard(2)	63,380	6.6%	$0.41	12/04/11	
K.C. Park(2)	60,563	6.3%	$0.41	12/04/11	

(1) Mr. Howard was awarded an additional grant of options during fiscal year 2001 due to his appointment during such year to Chief Technology Officer of the Company. Options vested immediately.

(2) Options issued to compensate employees for deferral of a portion of their salary. Options vested immediately.

(3) The exercise price of the stock options was based on the fair market value of the stock on the date of grant.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The table below presents certain information concerning the exercises of stock options during the fiscal year ended December 31, 2001 by each of the named executive officers and the number of shares subject to both exercisable and unexercisable stock options as of December 31, 2001. The common stock price at December 31, 2001 was $0.42 per share.

	Shares Acquired on Exercise	Value Realized	# of Securities Underlying Unexercised Options at FY-End Exercisable	Unexercisable
Gary Jones	-	-	147,183	-
A. P. Savadelis	-	-	176,056	-
Susan K. Jones	-	-	-	-
Webster Howard	-	-	63,380	-
K.C. Park	-	-	60,563	-
Edward V. Flynn	-	-	7,042	-

Compensation of Directors

Non-management Directors receive options under the 2000 Stock Option Plan (the "2000 Plan"). Under the 2000 Plan, a grant of options to purchase 40,000 shares of Common Stock will automatically be granted on the date a Director is first elected to the Board with an exercise price per share equal to 100% of the market value of one share on the date of grant. Each option so granted will expire ten years after the date of grant and will become exercisable in four equal installments commencing on the date of grant and annually thereafter. Non-management Directors receive an annual grant of options to purchase 10,000 shares of Common Stock at the fair market value as determined on the date of grant, which options so granted will expire ten years after the date of grant and will become exercisable in two equal installments commencing one year following the date of the grant and annually thereafter. In addition, at the beginning of 2002, each non-management Director received a grant of an additional 100,000 options with an exercise price per share equal to 100% of the market value of one share on the date of grant. Each option so granted vested immediately and will expire five years after the date of grant. Each non-management Director is also reimbursed for ordinary expenses incurred in connection with attendance at Board meetings.

Executive Employment Agreements

In connection with our merger with FED Corporation, effective March 16, 2000, we entered into employment agreements for a two-year term with Gary Jones and Susan Jones which provide for annual base salaries of $229,500 and $185,000 respectively and an annual discretionary bonus, as determined by our compensation committee, based on operating milestones and public market valuations. These employment agreements expired on March 16, 2002. The employment agreements of the above executive officers included agreements not to compete with us during their term of employment with us and for a period of one year following the qualified termination of their employment.

The Compensation Committee has allocated a bonus of 750,000 stock options to Gary W. Jones and 350,000 stock options to Susan K. Jones for the year 2001 during 2002 based on achievement of first product sales and achievement of certain military program awards.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee during fiscal 2001 were Mr. Rivkin and, prior to Mr. Reddy's resignation in December 2001, Mr. Reddy. Neither of Mr. Reddy nor Mr. Rivkin has ever been an officer or employee of the Company. None of the executive officers of the Company served as a member of the compensation committee of another entity during 2001.

Compensation Committee Report

The Compensation Committee establishes and reviews the compensation of the Company's executive officers. The Compensation Committee of the Board of Directors consists entirely of non-employee directors.

Compensation Philosophy. The Company's executive compensation program is designed to attract and retain key executives who will enhance the performance of the Company, promote its long-term interest and build stockholders' equity. The Compensation Committee sought to align total compensation for executive management with corporate performance. The Company's executive compensation package generally includes four main components:

1. A base salary which is established at levels considered appropriate for the duties and scope of responsibilities of each officer's position.
2. A bonus potential which is tied directly to operating objectives.
3. A stock option award to increase stock ownership in the Company and align executive compensation with stockholder interests.
4. Other compensation and employee benefits generally available to all employees of the Company, such as health insurance and participation in the eMagin Employee Savings and Protection Plan ("401(k) Plan").

The Compensation Committee places a particular emphasis on variable, performance based components, such as the bonus potential and stock option awards, the value of which could increase or decrease to reflect changes in corporate and individual performances.

CEO Compensation. Mr. Jones's base salary in 2001 was $229,500. On December 4, 2001 the Company temporarily deferred management salaries in excess of $125,000 pending closing of additional financing. In January 2002 the Compensation Committee allocated a bonus of 750,000 stock options to Gary W. Jones for the year 2001 based on achievement of first product sales, achievement of certain military program awards, and other milestones. No cash bonus was paid to Mr. Jones or any officer during 2001.

Compliance with Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly held companies for compensation paid to certain of their executive officers to the extent that such compensation exceeds $1.0 million per covered officer in any fiscal year. The limitation applies only to compensation that is not qualified performance-based compensation under the Internal Revenue Code. Non-performance-based compensation paid to the Company's executive officers for the 1999 Fiscal Year did not exceed the $1.0 million limit per officer, and the Compensation Committee plans to keep the non-performance-based compensation to be paid to the Company's executive officers for the 2000 Fiscal Year within that limit.

It is the opinion of the Compensation Committee that the executive compensation policies and plans provide the necessary total remuneration program to properly align the interests of each executive officer and the interests of the Company's shareholders through the use of competitive and equitable executive compensation in a balanced and reasonable manner, for both the short

and long term.

Compensation Committee:

Jack Rivkin

Performance Graph

The following graph compares the cumulative total shareholder return on our Common Stock from the initial listing date of our Common Stock on the American Stock Exchange through December 30, 2001 to the Russell 2000 Index and an index of peer companies selected by the Company ("Peer Index"). The companies in the Peer Index are as follows: Kopin Corporation, Microvision Corporation, Three Five Systems, Inc., and Universal Display Corporation. The past performance of the Company's Common Stock is not an indication of future performance. We cannot assure you that the price of the Company's Common Stock will appreciate at any particular rate or at all in future years. Notwithstanding any statement to the

contrary in any of the Company's previous or future filings with the Securities and Exchange Commission, the graph shall not be incorporated by reference into any such filings.

[Graphic of Performance Graph]

The above performance graph is based upon the following data:

	03/17/00	12/29/00	12/28/01
EMagin	$100.00	$9.24	$1.83
Russell 2000	$100.00	$87.34	$89.53
Peer Index	$100.00	$38.05	$14.42

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number of shares of our common stock beneficially owned by (i) each member of our board of directors; (ii) certain of our executive officers (including all of our named executive officers); (iii) all of our directors and executive officers as a group; and (iv) all those known by us to be beneficial owners of more than five percent of the outstanding shares of our common stock as of April 1, 2002. Unless otherwise indicated, the shareholders listed in the table have sole voting and investment power with respect to the shares indicated.

PRINCIPAL STOCKHOLDERS

	Shares of Common Stock Beneficially Owned	
	Shares	Percent

Travelers Insurance Company (1)	8,535,007	26.5%
Mortimer D.A. Sackler (2)	4,898,323	14.3%
Gary W. Jones (3)	2,519,231	7.9%
Susan K. Jones (3)	2,519,231	7.9%
SK Corporation (4)	2,549,229	7.8%
Dr. Mortimer D. Sackler(5)	2,162,761	6.9%
ROHM Corporation(6)	1,794,871	5.8%
Farmers Group (7)	1,531,628	5.0%
Ajmal Khan (8)	621,135	*
Claude Charles (9)	140,000	*

	Shares of Common Stock Beneficially Owned	
	Shares	Percent
K. C. Park (10)	167,603	*
J. Rivkin (11)	519,939	*
W. Howard (12)	325,204	*
Edward V. Flynn (13)	309,636	*
All Directors and Executive Officers as a Group (14)	13,137,755	37.2%

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* Less than 1% of the outstanding common stock.

(1) Shares are owned by Travelers and its affiliates TRAL and Citicorp. This figure includes warrants held by Travelers and Citicorp to purchase 614,613 and 127,292 shares of common stock respectively, 40,000 options of which 10,000 are exercisable within 60 days of April 1, 2002 and convertible debt to purchase 1,188,396 shares of common stock at a value date of March 28, 2002. (Address of beneficial owner is Citigroup Inc. 399 Park Avenue, New York, NY 10043.)

(2) Includes warrants and convertible debt to purchase 1,367,781 and 2,279,635 shares of common stock respectively. This figure also includes 961,597

shares of common stock and warrants to purchase 289,310 shares of common stock held by Rainbow Gate Corporation. Mr. Mortimer D.A. Sackler is the investment manager of Rainbow Gate Corporation and disclaims beneficial ownership of the shares held by Rainbow Gate Corporation except to the extent of his pecuniary interest in Rainbow Gate Corporation. (Address of beneficial owner is c/o Chadbourne & Parke LLP, 30 Rockefeller Plaza, New York, New York 10112.)

(3) This figure represents shares owned by Gary Jones and Susan Jones who are married to each other, including 1,408,655 shares of common stock issuable upon exercise of stock options and warrants to purchase 59,716 shares of common stock, which options and warrants are exercisable within 60 days of April 1, 2002.

(4) Includes warrants and convertible debt to purchase 205,479 and 2,343,750 shares of common stock respectively. (Address of beneficial owner is SK Corporation, 99 Seorin-dong, Jongro-ku, Seoul, 110-110, Korea.)

(5) Includes warrants and convertible debt to purchase 341,945 and 569,945 shares of common stock respectively. This figure also includes 961,597 shares of common stock and warrants to purchase 289,310 shares of common stock held by Rainbow Gate Corporation. Dr. Mortimer D. Sackler is the sole shareholder of Rainbow Gate Corporation. (Address of beneficial owner is c/o Chadbourne & Parke LLP, 30 Rockefeller Plaza, New York, New York 10112.)

(6) Includes warrants to purchase 512,820 shares of common stock. (Address of beneficial owner is ROHM Corporation, 21 Saiin Mizosaki-cho, kyo-Ku Kyoto, 615-8585, Japan.)

(7) Includes 724,618 shares of common stock owned by Farmers Insurance Exchange and 724,618 shares owned by Mid-Century Insurance, and warrants to purchase a total of 82,352 shares of common stock, one-half of which warrants are held by Farmers Insurance Exchange and one-half of which are held by Mid-Century Insurance. (Address of beneficial owner is 4 New York Plaza, New York, N.Y. 10004.)

(8) Includes 481,135 shares held by Verus International Ltd., in which Mr. Kahn is Chief Executive Officer and a stockholder. Also includes 140,000 shares of common stock issuable upon exercise of stock options of which 110,000 are exercisable within 60 days of April 1, 2002.

(9) Includes 140,000 shares of common stock issuable upon exercise of stock options of which 110,000 are exercisable within 60 days of April 1, 2002.

(10) Includes 167,431 shares of common stock issuable upon exercise of stock options of which 141,009 are exercisable within 60 days of April 1, 2002.

(11) Includes options, warrants and convertible debt to purchase 140,000, 142,477 and 237,462 shares of common stock respectively. All 140,000 options to purchase shares of common stock are exercisable within 60 days of April 1, 2002. Mr. Rivkin is the Non-Executive Chairman of Verus International Ltd.

(12) Includes 325,204 shares of common stock issuable upon exercise of stock options of which 211,230 are exercisable within 60 days of April 1, 2002.

(13) Includes 309,636 shares of common stock issuable upon exercise of stock options of which 249,571 are exercisable within 60 days of April 1, 2002.

(14) Includes 2,670,676 shares of common stock issuable upon exercise of stock options of which 2,380,465 are exercisable within 60 days of April 1, 2002. Also includes warrants to purchase 985,194 shares of common stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We entered into a consulting agreement dated as of March 16, 2000 with Verus International Ltd., of which Mr. Ajmal Khan is Chief Executive Officer and Mr. Rivkin is the Non-Executive Chairman. Mr. Khan and Mr. Rivkin are also members of our Board of Directors. Terms of the agreement include monthly payments of $15,000 by us to Verus International Ltd. for consulting services rendered during 2001. The term of the agreement expired on March 16, 2002.

On November 27, 2001, eMagin Corporation entered into a Secured Note Purchase Agreement whereby five accredited initial investors agreed to lend us an aggregate of $875,000 in exchange for (i) 9.00% per annum Secured Convertible Promissory Notes in an aggregate principal amount of $875,000, and (ii) three-year warrants to purchase up to an aggregate of 359,589 shares of our common stock. Messrs. Rivkin and Solomon, who at the time of the

transaction were each members of our Board of Directors, participated as investors in the transaction and each invested $125,000 in the Company. In return for such investment, Messrs. Rivkin and Solomon collectively received (i) Secured Convertible Promissory Notes in an aggregate principal amount of $250,000, and (ii) warrants exercisable for 102,740 of our common shares. Soveriegn Bancorp Ltd. also invested $100,000 under the transaction and received (i) a Secured Convertible Promissory Note in an aggregate principal amount of $100,000, and (ii) warrants exercisable for 41,096 of our common shares. The brother of Mr. Khan, a director of the Company, is an officer of Soveriegn Bancorp Ltd. In addition, Mr. Mortimer D.A. Sackler, who is currently a beneficial owner of more than five percent of the outstanding shares of our common stock, invested $200,000 under the transaction and collectively received (i) Secured Convertible Promissory Notes in an aggregate principal amount of $200,000, and (ii) warrants exercisable for 82,192 of our common shares. As of January 14, 2002, the Secured Note Purchase Agreement was amended to increase (i) the aggregate principal amount of the Secured Convertible Promissory Notes issued thereunder to $1,625,000, and (ii) the number of shares issuable pursuant to the warrants issued thereunder to 1,954,944. Pursuant to these amendments, Mr. Mortimer D.A. Sackler invested an additional $1,000,000 under the Secured Note Purchase Agreement and received (i) additional Secured Convertible Promissory Notes with an aggregate principal amount of $1,000,000, and (ii) additional warrants exercisable for 1,285,589 shares of our common stock. Rainbow Gate Corporation, pursuant to the November 27, 2001 transaction and the January 14, 2002 amendment, invested $300,000 under the transaction and collectively received (i) Secured Convertible Promissory Notes in an aggregate principal amount of $300,000, and (ii) warrants exercisable for 341,945 of our common shares. After the close of the January 14, 2002 amended transaction, Dr. Mortimer D. Sackler purchased from Rainbow Gate Corporation the Secured Convertible Promissory Notes in an aggregate principal amount of $300,000, and (ii) warrants exercisable for 341,945 of our common shares. At the time of the amendment, the Company also redeemed $250,000 in aggregate principal amount of the then outstanding notes held by three of the initial investors under the agreement. Pursuant to this redemption, the notes held by Mr. Solomon, (who at

the time of the redemption was no longer a member of our Board of Directors) and by Soveriegn Bancorp Ltd. were redeemed.

On February 27, 2002, eMagin Corporation and a group of several accredited institutional and individual investors entered into a Securities Purchase Agreement providing for the issuance and sale to the investors of (i) an aggregate of approximately 3.6 million shares of our common stock, and (ii) warrants exercisable for a period of three (3) years from the Closing Date for an aggregate of approximately 1.4 million shares of our common stock (subject to certain customary anti-dilution adjustments). Rainbow Gate Corporation invested $500,000 in the Company under the agreement and received pursuant to such investment (i) 723,275 shares of our common stock, and (ii) warrants exercisable for 289,310 shares of our common stock.

The Company believes that the transactions described above were made on terms no less favorable than could have been obtained from third parties. All transactions were negotiated at arm's length.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

Financial Statements are included in Item 8, "Financial Statements and Supplementary Data" as follows:

- Report of Independent Public Accountants
- Consolidated Balance Sheets as of December 31, 2001 and 2000

- Consolidated Statements of Operations for the Years ended December 31, 2001, 2000 and 1999 and for the period from inception (January 23, 1996) to December 31, 2001.
- Consolidated Statements of Shareholders' Equity for the period from inception (January 23, 1996) to December 31, 1996 and each of the five years ended December 31, 2001
- Consolidated Statements of Cash Flows--Years ended December 31, 2001, 2000, and 1999 and for the period from inception (January 23, 1996) through December 31, 2001
- Notes to Consolidated Financial Statements

(a) 2. Financial Statement Schedules

None

(a) 3. Exhibit List

Exhibit

Number	Description
2.1	Agreement and Plan of Merger between Fashion Dynamics Corp., FED Capital Acquisition Corporation and FED Corporation dated March 13, 2000, as filed in the Registrant's Form 8-K/A Report (file no. 001-15751) incorporated herein by reference.
3.1	Articles of Incorporation filed January 23, 1996, as filed in the Registrant's Form 10-SB (file no. 000-24757) incorporated herein by reference.
3.2	Bylaws, as filed in the Registrant's Form 10-SB (file no. 000-24757) incorporated herein by reference.
4.1	See Exhibits 3.1 and 3.2 for provisions of the Articles of Incorporation and Bylaws of the Registrant defining rights of the holders of common stock of the Registrant herein by reference.
10.1	2000 Stock Option Plan, as filed in the Registrant's Form S-8 (file no. 333-32474) incorporated herein by reference.
10.2	Consulting Agreement between eMagin Corporation and Verus International Ltd., dated March 16, 2000, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 incorporated by reference herein.

10.3	Employment Agreement with Gary W. Jones, dated March 16, 2000, as filed in the Registrant's Form for the year ended December 31, 2000 incorporated by reference herein.
10.4	Employment Agreement with Susan K. Jones, dated March 16, 2000, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 incorporated by reference herein.
10.5	Nonexclusive Field of Use License Agreement relating to OLED Technology for miniature, high resolution displays between the Eastman Kodak Company and FED Corporation dated March 29, 1999, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 incorporated by reference herein.
10.6	Amendment Number 1 to the Nonexclusive Field of Use License Agreement relating to the OLED Technology for miniature, high resolution displays between the Eastman Kodak Company and FED Corporation dated March 16, 2000, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 incorporated by reference herein.
10.7	Amendment Number 1 to the Lease between International business Machines Corporation and FED Corporation dated July 9, 1999, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 incorporated by reference herein.
10.8	Lease between International Business Machines Corporation and FED Corporation dated May 28, 1999, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 incorporated by reference herein.
10.9	Amendment Number 2 to the Lease between International Business

Machines Corporation and FED Corporation dated January 29, 2001, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 incorporated by reference herein.

10.10 Virtual Vision lease between Redson Building Partnership and Vision Newco dated December 15, 1995, as filed in the Registrant's Form 10-K/A for the year ended December 31, 2000 incorporated by reference herein.

10.11 Securities Purchase Agreement dated as of September 18, 2001 by and between eMagin Corporation and SK Corporation, as filed in the Registrant's Form 8-K dated September 26, 2001 incorporated herein by reference.

10.12 Registration Rights Agreement dated as of September 19, 2001 by and between eMagin Corporation and SK Corporation, as filed in the Registrant's Form 8-K dated September 26, 2001 incorporated herein by reference.

10.13 Note Purchase Agreement entered into as of August 20, 2001, by and among eMagin Corporation and The Travelers Insurance Company, as filed in the Registrant's Form 8-K dated September 4, 2001 incorporated herein by reference.

10.14 Secured Note Purchase Agreement entered into as of November 27, 2001, by and among eMagin Corporation and certain investors named therein, as filed in the Registrant's Form 8-K dated December 18, 2001 incorporated herein by reference.

10.15 Registration Rights Agreement dated November 27, 2001 by and between eMagin Corporation and certain investors named therein, as filed in the Registrant's Form 8-K dated December 18, 2001 incorporated herein by reference.

10.16 Security Agreement dated as of November 20, 2001, by and between eMagin Corporation, Verus International Ltd. and certain investors named therein, as filed in the Registrant's Form 8-K dated December 18, 2001 incorporated herein by reference.

21.1 Subsidiaries of the Registrant as filed in the Registrant's Form 10-K dated April 1, 2002 incorporated herein by reference.

23.1 Consent of Arthur Andersen LLP as filed in the Registrant's Form 10-K dated April 1, 2002 incorporated herein by reference.

99.1 Letter to commission pursuant to Temporary Note 3T as filed in the Registrant's Form 10-K dated April 1, 2002 incorporated herein by reference.

Pursuant to the requirements of Section 13 or 15(d) of the Securities

Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 30th day of April 2002.

EMAGIN CORPORATION

By: /s/ Gary Jones

Name: Gary Jones
Title: Chief Executive Officer and President

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED:

NAME	TITLE	
/s/ Gary Jones Gary Jones	President, Chief Executive Officer and Director (Principal Executive Officer)	April
/s/ Edward V. Flynn Edward V. Flynn	Chief Financial Officer, Treasurer (Principal Financial Accounting Officer)	April
/s/ Claude Charles Claude Charles	Director	April
/s/ Ajmal Khan Ajmal Khan	Director	April
/s/ Jack Rivkin Jack Rivkin	Director	April