

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

EMAGIN CORP

Form: 10-K/A

Date Filed: 2020-01-30

Corporate Issuer CIK: 1046995

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
Amendment No. 2

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 001-15751

eMAGIN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

56-1764501

(I.R.S. Employer
Identification No.)

2070 Route 52, Hopewell Junction, NY 12533

(Address of principal executive offices)

(845) 838-7900

(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller Reporting Company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2018, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the issued and outstanding common stock held by non-affiliates of the registrant, based upon the closing price of the common stock as traded on the NYSE American of \$ 1.80 was approximately \$54.0 million. For purposes of the above statement only, all directors, executive officers and 10% shareholders are assumed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

The number of shares of common stock outstanding as of March 1, 2019 was 45,031,332

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2019, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A (this "Amendment No. 2") amends the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 of eMagin Corporation filed with the Securities and Exchange Commission (the "SEC") on March 28, 2019 (the "Original Filing"). In this Amendment No. 2, unless the context indicates otherwise, the designations "eMagin," the "Company," "we," "us" or "our" refer to eMagin Corporation and its wholly owned subsidiaries.

This Amendment No. 2 is being filed to amend Item 8 of the Original Filing in order to (i) include a revised audit opinion of RSM US LLP, our independent registered accounting firm for the two year period ended December 31, 2018, to add language required by PCAOB Standards 2415 and 3101, and (ii) revise Note 2 to the Company's Consolidated Financial Statements, "*Inventories*", to add language required by FASB Accounting Standard Update 2015-11 ("ASU 2015-11"). There are no other changes to our consolidated financial statements as set forth in the Original Filing. In addition, the Original Filing has been amended to revise "Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Inventory Valuation*" to add language required by ASU 2015-11.

Except as described above, no other amendments are being made to the Original Filing. This Amendment No. 2 also includes the currently dated signature page and certifications from the Company's principal executive officer and principal financial officer. This Amendment No. 2 does not reflect events occurring after the March 28, 2019 filing of the Original Filing or modify or update the disclosure contained in the Original Filing in any way other than as required to reflect the amendments discussed above and reflected below. Accordingly, this Amendment No. 2 should be read in conjunction with the Original Filing and our other filings with the SEC.

INDEX

		<u>Page</u>
	PART I	
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	4
Item 8	Financial Statements and Supplementary Data	15
	PART IV	
Item 15	Exhibits and Financial Statement Schedules	16
	Signatures	18

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

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

Business

We believe that we will maintain our leadership position in our core military and commercial, (including industrial and medical) markets by continuing to improve both product performance and manufacturing processes. We believe that our technology roadmap should enable us to maintain our competitive advantage as we believe that our focus on high brightness aligns well with the performance requirements of future military ground and aviation programs in the U.S. and elsewhere. Key growth opportunities for us include the consumer electronic and enterprise OEM markets where, we believe, our dPd technology is a key differentiator for enabling next generation AR/VR hardware because of its brightness and pixel density. In order to achieve growth in the consumer and enterprise OEM markets, we believe we will need to partner with industry leaders in consumer electronics who can help us capitalize on our technology to meet the needs of end users from both a cost and performance standpoint. Our strategy for these markets is to license our dPd technology and partner with established high volume manufacturers in the mass production of microdisplays.

We made progress towards our goals of securing new U.S. military programs, broadening our presence in foreign military applications, and in commercial, including industrial and medical, markets during fiscal 2018. We continue to participate in government discussions on microdisplay development for future defense aviation/mounted/ground programs and to position our displays as a key component of the future Soldier System 2030 technology suite for enhanced soldier performance and accelerated decision making. As the only U.S. based manufacturer of OLED microdisplays, we are also working to secure additional government funding to ensure the advancement of our manufacturing capabilities in support of defense programs that can benefit from incorporating our high brightness OLED microdisplays including those incorporating our dPd technology.

Our technology development efforts continue to focus on advancing and enhancing our leading dPd display technology. During 2018, we continued to improve the performance of our dPd displays by lowering power consumption by 20 percent and demonstrating a higher maximum brightness of more than 7,500 nits. Our goal is to achieve at least 10,000 nits by year-end 2019. Additionally, such efficient and high brightness displays lead to longer battery life and also longer device lifetime for a given brightness. We believe that our high luminance OLED-on-silicon technology is gaining greater attention in the AR/VR industry which requires high brightness and has contributed to our signing agreements with multiple Tier One consumer product and electronics companies.

Operationally, we furthered our progress on our multi-year yield improvement initiative as we increased production resources, made key technical hires, and installed new, advanced production equipment. This initiative is expected position us to increase production capacity, lower unit costs and achieve greater operating efficiencies which we believe should enable us to meet growing customer demand and achieve higher gross profits. As part of our yield improvement initiative, we also made capital equipment acquisitions over the past several quarters which we are currently qualifying or have now been qualified for production. We expect that these additions will reduce our dependency on critical equipment at key stages of the production process and provide greater operating flexibility, permitting us to address the increasingly demanding needs of our customers without compromising throughput volumes or unit profitability.

During the fourth quarter of 2018 production yields and output were negatively impacted by manufacturing-related issues. Delays in process qualification of one product type on our higher volume deposition tool, along with the interruption in the operation of a critical tool led to lower yields and loss of production late in the fourth quarter. These issues led to lower gross margin and reduced display revenue. Although remedial measures have been implemented and yields and production volumes are expected to recover, these delays continued in the first quarter of fiscal 2019 and shipments for the first quarter of 2019 will be less than originally planned. The equipment purchases, installations, and qualifications mentioned above should reduce the probability of future reoccurrences.

Liquidity and Going Concern

As explained below under Liquidity and Capital Resources, the accompanying consolidated financial statements have been prepared on the going concern basis, which assumes we will continue to operate as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. We have \$3.4 million of cash, no outstanding debt, and borrowing availability under our ABL Facility of \$4.1 million at December 31, 2018, and believe based on our projections that we will have sufficient liquidity through March 31, 2020. However due to continuing losses, our financial position, and uncertainty regarding our ability to borrow under the ABL Facility, we may not be able to meet our financial obligations as they become due without additional financing or sources of capital. Management is prepared to reduce expenses and raise additional capital, or enter into a strategic transaction but there can be no assurance that we will be successful in these efforts or that projected results will be achieved.

New Business

We are seeing growing demand for our products, particularly under U.S. military and aviation programs and with new and existing international customers. During the fiscal 2018 we sold to over 80 customers and supplied products for over 20 new programs. The increased demand is leading to more orders and the requested acceleration of existing orders. As of December 31, 2018 our backlog of products scheduled for delivery through December 31, 2019, was \$10.6 million an increase of approximately \$800 thousand over the backlog of \$9.8 million at December 31, 2017.

Among our successes during the year were:

- We received approval of our design from a Tier 1 consumer electronics partner for prototype high resolution, 4k x 4k displays featuring very high brightness using our dPd technology, which will result in a headset with a wide field of view and no screen door effect. We worked with a foundry partner to manufacture the silicon wafers needed to develop our displays, the first of which were shipped to us in December 2018 for testing and evaluation. We anticipate completing these displays in the third quarter of 2019.
- Our development efforts to support the F-35 Lightning II helmet accelerated during the year. Under contract from Collins Aerospace, we designed, manufactured and delivered the initial displays for this multi-service, multi-country program which are being installed in helmets for flight tests scheduled for 2019. We will continue to deliver displays throughout 2019 while concurrently working closely with the Collins Aerospace team to further improve the display in preparation for LRIP.
- We received an order totaling \$560 thousand in support of the Javelin Missile program Command Launch Unit. We anticipate a follow-on order in the second quarter 2019.
- We supported multiple prime contractors with display deliveries for pre-production units for the US Army Enhanced Night Vision Goggle program and are providing additional engineering support for the Binocular program. This program is anticipated to commence production in 2019 with an overall acquisition objective by the US Army of 190,000 systems.
- Ground and flight tests were successfully completed in fourth quarter of 2018 for a major US Army helicopter helmet upgrade program to retrofit high brightness microdisplays into the current fielded helmet.
- During 2018 we received \$830 thousand from the US Army for OLED display production and yield improvement projects. We received an additional award in first quarter 2019 to continue this successful program.
- We delivered the first 2K x 2K compact board interface to an aviation prime for the development of a next generation helmet prototype.

New Technology Development

Our technology development centers on advancing our industry-leading high brightness full-color microdisplays incorporating our color filter and proprietary dPd technology. We believe our dPd 2K x 2K displays demonstrate the best combination of high brightness and resolution in the global market today. We have designed these displays to incorporate the attributes that consumer electronics companies demand for their next generation products including variable persistence and global illumination. We view the continued development and demonstration of the advantages of our dPd technology as integral to driving our growth in the enterprise and consumer AR/VR markets, and to accelerate our discussions with mass production partners.

Recent improvements in our manufacturing processes have led to the production of microdisplays with brightness levels that surpass

the 5,000 nits threshold requirements of Tier One companies for their AR/VR applications and put us on track to exceed the future brightness levels required by the military. We have developed microdisplays that achieve a measured brightness of 7,500 nits in fiscal 2018 and are targeting a brightness of 10,000 nits in full color by the end of fiscal 2019, consistent with our goal of achieving over 25,000 nits by the end of 2021.

We have also made proprietary architectural improvements and incorporated superior performing OLED materials that have led to demonstrated improvements in the efficiency and lifetime of our displays by more than 50%. In concert with these initiatives, we are upgrading our existing direct patterning equipment which we expect will significantly extend the lifetime of our dPd displays while improving production yields and volumes. The equipment upgrade is scheduled to be completed during the first second quarter of 2019 with lower volume dPd display production commencing in the third quarter of 2019.

New Product Development

We are developing both small pixel and large area microdisplay architectures for wearable consumer applications. These efforts are actively driven by our consumer electronics customers and are aimed at leveraging our dPd technology for cost effective, large volume production systems.

During the third quarter of 2018, we completed the critical design review for a next generation AR/VR microdisplay. The first prototype, which will use our dPd technology, is on schedule for completion in early 2019. This display will have very high resolution, high frame rate and other characteristics needed for AR/VR applications.

In addition, a compact interface for our 2K x 2K displays, which is capable of driving 120 Hz frame rates, was completed during the second quarter of 2018 and we continued to provide samples to key potential customers in the third and fourth quarters. The compact size and long interface cable makes this system ideally suited for head wearable applications for military and consumer applications and is compliant with the DisplayPort standard commonly found on modern laptop and desktop computers.

During 2018, we began developing a prism optic that will pair with our S XGA-096 displays and are currently evaluating prototypes received from potential manufacturing partners. We are seeing interest for this display and prism combination for military and commercial applications.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

	Twelve Months Ended December 31,		
	2018	2017	Change
	(in thousands)		
Product	\$ 23,322	\$ 18,685	\$ 4,637
Contract	2,913	\$ 3,346	(433)
Total revenue, net	\$ 26,235	\$ 22,031	\$ 4,204

Revenues increased \$4.2 million to \$26.2 million for the year ended December 31, 2018 from approximately \$22.0 million for the year ended December 31, 2017, representing a 19% increase.

Product revenues are comprised primarily of sales of displays as well as sales of other components. In 2018, product revenues increased \$4.6 million to \$23.3 million for the year ended December 31, 2018 from revenues of \$18.7 million for the year ended December 31, 2017, representing a 25% increase. The increase in product revenues in 2018 was primarily due to continued growth from new U.S. and foreign military programs as well as the ramp up of existing programs. The full year revenues were negatively affected by the fourth quarter production challenges. The 2017 product revenue was unfavorably impacted by the wind down of certain military programs.

Contract revenues are comprised of revenues from research and development, or R&D, and non-recurring engineering or NRE contracts. In 2018, contract revenues decreased \$0.4 million to \$2.9 million for the year ended December 31, 2018 from revenues of \$3.3 million for the year ended December 31, 2017, representing a 13% decrease. The decrease in contract revenues in 2018 was a result the completion during late 2017 and early 2018 of several commercial and US Government R&D contracts including the multi-year \$5 million ManTech project.

Cost of Revenues

	Twelve Months Ended December 31,		
	2018	2017	Change
	(in thousands)		
Product	\$ 17,797	\$ 15,195	\$ 2,602
Contract	1,754	1,712	42
Impairment of Consumer Night Vision Business inventory	2,690	—	2,690
Total cost of revenues	\$ 22,241	\$ 16,907	\$ 5,334

Total cost of revenues is comprised of costs of product revenues and contract revenues. Cost of product revenue includes materials, labor and manufacturing overhead, warranty costs and depreciation related to our products. Cost of contract revenue includes direct and allocated indirect costs associated with performance on the contracts, primarily engineering resources and materials. Total cost of revenues of \$22.4 million for 2018 includes a \$2.7 million impairment of consumer night vision business inventory recorded during the quarter ended June 30, 2018.

Excluding the effects of the consumer night vision business impairment, total cost of revenues for 2018 increased by \$2.8 million, as compared to the prior year period, primarily due to higher volumes sold. On a unit cost basis, costs during the 2018 periods increased based on higher material costs due to product mix.

Total cost of revenues as a percentage of revenues was 86% and 77%, respectively, for the 2018 and 2017 periods. Excluding the impact of the Consumer Night Vision Business impairment, total cost of revenues as a percentage of revenues was relatively consistent at 75% and 77%, respectively, for the 2018 and 2017 periods.

The following table outlines product, contract and total gross profit and related gross margins for the years ended December 31, 2018 and 2017 (dollars in thousands):

	Twelve Months Ended December 31,			
	2018		2017	
	(\$ in thousands)			
Product revenues gross profit	\$	5,525	\$	3,490
Product revenues gross margin		24 %		19 %
Contract revenues gross profit	\$	1,159	\$	1,634
Contract revenues gross margin		40 %		49 %
Impairment of Consumer Night Vision Business inventory	\$	(2,690)	\$	—
Total gross profit	\$	3,994	\$	5,124
Total gross margin		15 %		23 %
Total gross margin excluding the Consumer Night Vision Business Impairment		25 %		23 %

Total gross profit is a function of revenues less cost of revenues. In fiscal 2018, total gross profit decreased approximately \$1.1 million or 22% from gross profit of \$5.1 million in fiscal 2017. Total gross margin was 15% for the fiscal year ended December 31, 2018, a decrease from 23% for the year ended December 31, 2017. The lower gross profit was primarily due to an impairment charge related to the discontinuation of the consumer night vision business and the production challenges during and the fourth quarter of fiscal 2018.

Excluding the impairment charge, the total gross profit for the year ended December 31, 2018 increased \$1.6 million to \$6.7 million as compared to \$5.1 million in the prior year period primarily reflecting increased product revenue gross profit on higher 2018 revenues. Total gross margin, net of the impairment charge, was 14% and 23% for years ended December 31, 2018 and 2017, respectively. Excluding the impairment charge, the total gross margin of 25% for the year ended December 31, 2018 increased from the total gross margin of 23% in the prior year period, due to increased product revenues, higher production volumes and improved yields in fiscal 2018.

Excluding the consumer night vision business impairment charges, the product gross profit of \$5.5 million and gross margin of 24% for the year ended December 31, 2018 increased compared to the prior year period. The increases in fiscal 2018 period were due to higher 2018 revenues and the allocation of production overheads to higher production display volumes, partially offset by higher material costs in 2018 resulting from product mix. These increases gross profit increases were partially offset by the negative impact of manufacturing-related issues due to equipment failures on production yields and output experienced in the fourth quarter of 2018.

Contract gross margin is dependent upon the mix of internal versus external third party costs and materials, with the external third party costs and materials causing a lower gross margin and reducing the contract gross profit. For the year ended December 31, 2018, contract revenue gross profit was \$1.2 million compared to \$1.6 million for the prior year period. The decrease in contract revenue gross profit for the year ended December 31, 2018 was primarily due to the decreases in contract revenues partially offset by the addition of several military related contracts at favorable margins.

	Twelve Months Ended		
	December 31,		
	2018	2017	Change
	(\$ in thousands)		
Research and development expense	\$ 6,694	\$ 5,175	\$ 1,519
Percentage of net revenue	26 %	23 %	
Selling, general and administrative expense	\$ 8,967	\$ 8,682	\$ 285
Percentage of net revenue	34 %	39 %	
Total operating expenses	\$ 15,661	\$ 13,857	\$ 1,804
Percentage of net revenue	60 %	63 %	

Research and Development Expenses

R&D expenses are Company funded and are primarily comprised of salaries and related benefits, development materials and other costs specifically allocated to the development of new microdisplay products, OLED technologies and production processes. Research and development expenses for the year ended December 31, 2018 were \$ 6.7 million as compared to \$5.2 million for the year ended December 31, 2017, an increase of \$1.5 million. The increase in company-funded R&D expenses in 2018 reflected work performed on the Company's dPd technology including product development and process development associated with the manufacture of our direct patterned displays as well as resources expended on improving manufacturing processes. The lower prior year's R&D expense reflected a higher proportion of R&D costs allocated to commercial contracts.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A expenses, consist primarily of personnel expenses, professional services fees, as well as other marketing, general corporate and administrative expenses. SG&A expenses for the year ended December 31, 2018 were \$9.0 million as compared to \$8.7 million for the year ended December 31, 2017, an increase of approximately \$0.3 million. The increase in SG&A for 2018 was primarily due to higher spending on professional services including legal fees incurred in connection with our negotiations with prospective consumer electronics and manufacturing partners.

Other Income (Expense)

Other income (expense), net primarily consists of changes in the fair value of a warrant liability as well as interest expense and interest income on cash balances. Other income for the year ended December 31, 2018 was \$2.1 million compared to other income of \$0.7 million for the year ended December 31, 2017.

Income related to the change in fair value of warrant liability was \$2.2 million in fiscal 2018 as compared to \$1.1 million in fiscal 2017. This non-cash income is associated with the decrease of a liability related to registered warrants issued in May 2017 and January 2018. We are required to revalue warrants classified on our balance sheet as a liability at the end of each reporting period and reflect a gain or loss from the change in fair value in the period in which the change occurred. We calculate the fair value of the warrants outstanding using the Black-Scholes model.

Other income for fiscal 2018 reflects net interest expense of \$69 thousand as compared to net interest expense of \$363 thousand for fiscal 2017 which \$158 thousand related to a write-off of issuance costs associated with the unsecured financing commitment in May 2017 upon the termination of this facility and interest expense on borrowing under our asset based revolving credit facility.

Income Tax Expense (Benefit)

For the years ended December 31, 2018 there was no income tax expense. For the year ended December 31, 2017, we recorded a benefit of \$0.2 million because we expect to file a claim for a federal tax refund of approximately \$0.2 million for alternative minimum tax or AMT credit carryforward in tax years 2018 to 2021 pursuant to the applicable provisions of the Tax Cuts and Jobs Act of 2017, or TCJA. We have a full valuation allowance as we have determined that it was not more likely than not that we will generate sufficient future taxable income to realize the deferred tax assets.

Our income tax expense for fiscal 2018 was not impacted by changes resulting from the TCJA because the full valuation allowance offset any changes to deferred tax balances resulting from the lowering of tax rates.

Net Loss

As a result of the above, net loss was approximately \$9.5 million and \$7.8 million for the fiscal years ended December 31, 2018 and 2017, respectively.

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

As of December 31, 2018, we had \$3.4 million of cash, cash equivalents, and investments as compared to \$3.5 million at December 31, 2017. The \$0.1 million decrease in cash was primarily due to cash used in operating activities of \$ 6.4 million and investing activities of \$2.3 million, partially offset by cash provided by financing activities of \$8.5 million.

For the year ended December 31, 2018, operating activities used \$6.4 million in cash, which was attributable to our net loss of \$9.7 million less, net non-cash expenses of \$3.1 million, and changes in operating assets and liabilities of \$0.2 million. For the year ended December 31, 2017, operating activities used \$8.1 million in cash, which was primarily attributable to our net loss of \$7.8 million and the effect of net non-cash expenses and changes in operating assets and liabilities.

For the years ended December 31, 2018 and 2017, investing activities used \$2.3 million and \$1.4 million, respectively, in cash for equipment purchases primarily for upgrading and expanding the capacity of our production line.

For the year ended December 31, 2018, financing activities provided \$8.5 million in cash of which \$ 12.1 million were from the net proceeds from a public offering and associated private placement of our common stock and \$144 thousand were from the exercise of stock options and warrants. During 2018, these amounts were partially offset by the repayment of \$3.8 million in borrowings under our ABL Facility. For the year ended December 31, 2017, financing activities provided approximately \$7.8 million in cash of which approximately \$5.9 million were from the net proceeds from a public offering of our common stock, \$1.9 million from net borrowings under our ABL Facility, net of debt issuance costs, and \$140 thousand of proceeds were from the exercise of stock options.

Going Concern

For the year ended December 31, 2018, we incurred a net loss of \$9.5 million and used cash in operating activities of \$6.4 million. At December 31, 2018, we had cash and cash equivalents of \$3.4 million, net working capital of \$8.8 million, no outstanding debt, and borrowing availability under our ABL Facility of \$4.1 million.

Due to continuing losses, our financial position, and uncertainty regarding our ability to borrow under the ABL Facility, we may not be able to meet our financial obligations as they become due without additional financing or sources of capital. Management is prepared to reduce expenses and raise additional capital, but there can be no assurance that we will be successful in sufficiently reducing expenses or raising capital to meet its operating needs.

Our ABL Facility expires on December 31, 2019 and, while relations with the lender are positive, there is no assurance the lender will renew or extend this facility, or continue to make funds available during 2019 and beyond at present availability levels, or at all. Therefore, in accordance with applicable accounting guidance, and based on our current financial condition and availability of funds, there is substantial doubt about our ability to continue as a going concern through March 31, 2020.

Based on our current projections and the availability of the ABL Facility, we estimate we will have sufficient liquidity through the end of the first quarter of 2020. However, there can be no assurance projected results will be achieved or funds will be available under our ABL Facility. If actual results are less than projected or additional needs for liquidity arise, we may be able to raise additional debt or equity financing and is prepared to reduce expenses or enter into a strategic transaction. However, we can make no assurance that we will be able to reduce expenses sufficiently, raise additional capital, or enter into a strategic transaction on terms acceptable to us, or at all.

Underwritten Public Offerings

On May 24, 2017, we completed an underwritten offering of 3,300,000 shares of our common stock at an offering price of \$2.00 and warrants to purchase up to 1,650,000 shares of common stock and realized net proceeds of \$5.8 million dollars after underwriting discounts and offering expenses. The shares and warrants were purchased by a single institutional investor and by Stillwater, LLC, an affiliate. The Warrants have an exercise price of \$2.45 per common share and a term of five years.

The underlying shares of common stock and warrants issued in this offering completed the allotment of shares allowable for issuance pursuant to a shelf registration statement filed in 2014. In June 2017, we filed a replacement shelf registration statement that will provide us with the flexibility, subject to certain limitations as a result of our current unaffiliated market capitalization, to raise capital over the next three years from the offering of common stock, preferred stock, warrants, units and debt securities, or any combination of these securities, in one or more future offerings.

On January 29, 2018, we completed an underwritten offering of 9,807,105 shares of our common stock together with warrants to purchase 3,922,842 shares of our common stock with an exercise price of \$1.55 per share and a five- year term. (at a public offering price of \$1.35 per fixed combination consisting of one share of Common Stock and associated warrant to purchase four-tenths of one share of Common Stock). We received net proceeds after underwriting discounts and expenses of approximately \$11.9 million.

In a concurrent private placement, certain of our directors and officers purchased an aggregate of 203,708 shares of Common Stock, together with warrants to purchase up to 81,487 shares of Common Stock at the public offering price per fixed combination. The sale of these shares of common stock and warrants was not registered under the Securities Act and is subject to a 180-day lock-up. The private placement closed on February 15, 2018, and the Company received net proceeds of \$0.3 million.

ABL Facility

On December 21, 2016, we entered into an ABL facility with a lender that provides for up to a maximum amount of \$5 million based on a borrowing base equivalent of 85% of eligible accounts receivable plus the lesser of \$2 million or 50% of eligible inventory. The interest on the ABL Facility is equal to the Prime Rate plus 3% but may not be less than 6.5% with a minimum monthly interest payment of \$2,000. We are obligated to pay the lender a monthly administrative fee of \$1,000 and an annual facility fee equal to 1% of the maximum amount borrowable under the facility. The ABL Facility will automatically renew on December 31, 2019 for a one-year term unless written notice to terminate the Financing Agreement is provided by either party.

The ABL Facility is secured by a lien on all receivables, property and the proceeds thereof, credit insurance policies and other insurance relating to the collateral, books, records and other general intangibles, inventory and equipment, proceeds of the collateral and accounts, instruments, chattel paper, and documents. The ABL Facility contains customary representations and warranties, affirmative and negative covenants and events of default, including a provision that we maintain a minimum tangible net worth of \$13 million and a minimum working capital balance of \$4 million. As of December 31, 2018, there were no net borrowings outstanding under the Financing Agreement, the interest rate was 8.5% and had unused borrowing availability of \$4.1 million. We were in compliance with all financial debt covenants as of December 31, 2018.

Change in Control Agreements

On November 8, 2017, the Company entered into change in control agreements with certain of its executive officers, non-executive officers and managers. The change in control agreements provide that if the executive's employment is terminated within the twelve-month period following a change in control of the Company, the executive officer will be entitled to receive a lump sum cash payment equal to their annual base salary and the Company will pay the Executive's monthly COBRA health continuation premiums for up to twelve months subsequent to the termination date. The change in control agreements signed with certain non-executive officers and managers are on similar terms, but upon an event of termination, provide for one half of annual base salary and payment of monthly Cobra health continuation payment for up to six months.

Dividends and Stock Repurchase Plan

In the years ended December 31, 2018 and 2017, no dividends were declared or paid. It is our intention to retain any future profits for use in the development and expansion of our business and for general corporate purposes. Future decisions to pay cash dividends are at the discretion of our Board of Directors.

In August 2011, our Board of Directors approved a stock repurchase plan authorizing us to repurchase our common stock not to exceed \$2.5 million in total value. No shares were repurchased subsequent September 2012. As of December 31, 2018, authorization to repurchase \$2.0 million in value of our common stock remained under this plan.

Contractual Obligations

The following chart describes the outstanding contractual obligations of eMagin as of December 31, 2018 (in thousands):

	Payments Due by Period				
	Total	1 Year	2-3 Years	4-5 Years	Thereafter
Operating lease obligations	\$ 5,516,163	\$ 1,049,908	\$ 2,004,303	\$ 2,036,038	\$ 425,914
Finance lease obligations	57,190	12,709	34,950	9,532	-
ABL Facility (a)	-	-	-	-	-
Equipment purchase obligations	810,648	810,648	-	-	-
Purchase obligations (b)	9,695,170	9,695,170	-	-	-
Total	\$ 16,079,171	\$ 11,568,435	\$ 2,039,253	\$ 2,045,569	\$ 425,914

- (a) The Company's ABL facility matures in 2019 and is classified as a current liability .
- (b) The majority of purchase orders outstanding contain no cancellation fees except for minor re-stocking fees or reimbursements due to contract manufacturers for components purchased in anticipation of a scheduled production run that are subsequently cancelled.

Critical Accounting Policies

The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Not all of the accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

Revenue and Cost Recognition

All of our revenues are earned from contracts with customers and are classified as either Product or Contract revenues. Contracts include written agreements and purchase orders, as well as arrangements that are implied by customary practices or law.

Product revenue is generated primarily from contracts to produce, ship and deliver OLED microdisplays. Our performance obligations are satisfied, control of our products is transferred, and revenue is recognized at a single point in time when control transfers to our customer for product shipped. Our customary terms are FOB our factory and control is deemed to transfer upon shipment. Shipping and other transportation costs charged to customers are treated as fulfillment activities and are recorded in both revenue and cost of sales at the time control is transferred to the customer. As customers are invoiced at the time control transfers and the right to consideration is unconditional at that time, we do not maintain contract asset balances for product revenue. Additionally, we do not maintain contract liability balances for product revenues, as performance obligations are satisfied prior to customer payment for product. We offer generally a one-year product warranty, for replacement of product only, and do not allow returns. We offer industry standard payment terms that typically require payment from our customers from 30 to 60 days after title transfer.

We also recognize revenues under the over-time method from certain R&D activities (contract revenues) under both firm fixed-price contracts and cost-type contracts. Progress and revenues from research and development activities relating to firm fixed-price contracts and cost-type contracts are generally recognized on an input method of accounting as costs are incurred. Under the input method, revenue is recognized based on efforts expended to date (e.g., the costs of resources consumed or labor hours worked, or machine hours used) relative to total efforts intended to be expended. Contract costs include all direct material, labor and subcontractor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party. Any changes in estimate related to contract accounting are accounted for prospectively over the remaining life of the contract. Under the over-time method, billings may not correlate directly to the revenue recognized. Based upon the terms of the specific contract, billings may be in excess of the revenue recognized, in which case the amounts are included in deferred revenues as a liability on the Consolidated Balance Sheets. Likewise, revenue recognized may exceed customer billings in which case the amounts are reported as unbilled receivables. Unbilled revenues are expected to be billed and collected within one year. The incidental costs related to obtaining product sales contracts are non-recoverable from customers; and accordingly, are expensed as incurred.

Product Warranty

We offer generally a one-year product replacement warranty. In general, our standard policy is to repair or replace the defective products. We accrue for estimated returns of defective products at the time revenue is recognized based on historical activity as well as for specific known product issues. The determination of these accruals requires us to make estimates of the frequency and extent of

warranty activity and estimate future costs to replace the products under warranty. If the actual warranty activity and/or repair and replacement costs differ significantly from these estimates, adjustments to cost of revenue may be required in future periods.

Inventory Valuation

Inventories are stated on a standard cost basis adjusted to approximate the lower of cost (as determined by the first-in, first-out method) or net realizable value. Cost includes materials, labor, and manufacturing overhead related to the production of OLED displays. The standard cost for the Company's products are subject to fluctuation from quarter to quarter, depending primarily on the number of displays produced, fluctuations in manufacturing overhead and labor hours incurred, and the yields experienced in the manufacturing process. The Company regularly reviews inventory quantities on hand, future purchase commitments with the Company's suppliers, and the estimated utility of the inventory. If the Company review indicates a reduction in utility below carrying value, the inventory is reduced to a new cost basis.

Fair Value of Financial Instruments

eMagin's cash, cash equivalents, accounts receivable, short-term investments, accounts payable are stated at cost which approximates fair value due to the short-term nature of these instruments. The fair value of our ABL Facility approximates our carrying value because the interest rate moves with a market based rate plus a margin. The fair value of the liability for common stock purchase warrants is estimated using the Black Scholes option pricing model based on the market value of the underlying common stock at the measurement date, the contractual term of the warrant, risk-free interest rates, expected dividends and expected volatility of the price of the underlying common stock.

Stock-based Compensation

We account for the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors by estimating the fair value of stock awards at the date of grant using the Black-Scholes option valuation model. Stock-based compensation expense is reduced for estimated forfeitures and is amortized over the vesting period using the straight-line method. See Note 13 of the Consolidated Financial Statements- Stock Compensation for a further discussion on stock-based compensation.

Derivative Financial Instruments

We evaluate all of our financial instruments, including issued stock purchase warrants, to determine if such instruments are derivatives or contain features qualifying as embedded derivatives. For derivative financial instruments accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statement of operations. We use the Black-Scholes option-pricing model to value the derivative instruments at inception and subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. We do not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks.

Income Taxes

We are required to estimate income taxes in each of the jurisdictions in which we operate. The process involves estimating our current tax expense together with assessing temporary differences resulting from the differing treatment of items for accounting and tax purposes. These differences result in deferred tax assets and liabilities. Operating losses and tax credits, to the extent not already utilized to offset taxable income also represent deferred tax assets. We must assess the likelihood that any deferred tax assets will be realized from future taxable income, and to the extent we believe that realization is not likely, we must establish a valuation allowance. Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets.

In determining future taxable income, assumptions are made to forecast operating income, the reversal of temporary timing differences and the implementation of tax planning strategies. Management uses significant judgment in the assumptions it uses to forecast future taxable income which are consistent with the forecasts used to manage the business. Realization of the deferred tax asset is dependent upon future earnings, with respect to which there is uncertainty as to the timing.

In assessing the realizability of deferred tax assets, we evaluate both positive and negative evidence that may exist and consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. At December 31, 2018 and 2017, we have provided a full valuation allowance against its deferred tax assets as we have determined that it is more likely than not that none of the deferred tax assets will be realized.

Our effective income tax rate was 0% in 2018 and 2017.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act , or TCJA. This legislation makes broad and complex changes to the U.S. tax code, including, but not limited to, (i) reducing the U.S. federal statutory tax rate from 35% to 21%; (ii) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (iii) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017, and (iv) modifying the officer's compensation limitation. The Company recognizes the effects of changes in tax law, including the TCJA, in the period the law is enacted. Accordingly, the effects of the TCJA have been recognized in the financial statements for the years ended December 31, 2018 and 2017.

Effect of Recently Issued Accounting Pronouncements

See Note 2 of the Consolidated Financial Statements in Item 8 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of the independent registered public accounting firm and financial statements are included in Item 15 of this Annual Report on Form 10-K/A.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Schedules

1. Financial Statements

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

- F-1 Report of Independent Registered Public Accounting Firm.
- F-2 Consolidated Balance Sheets at December 31, 2018 and 2017.
- F-3 Consolidated Statements of Operations for the Years Ended December 31, 2018 and 2017.
- F-4 Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2018 and 2017.
- F-5 Consolidated Statements of Cash Flows for the Years Ended December 31, 2018 and 2017.
- F-6 Notes to the Consolidated Financial Statements

2. Financial Statement Schedules

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

(b) Exhibits

The exhibits listed in the accompanying Index to Exhibits on page 18 are filed or incorporated by reference as part of this Annual Report on Form 10-K/A.

eMAGIN CORPORATION
INDEX TO EXHIBITS

Exhibit Number	Description
<u>23.1</u>	<u>Consent of Independent Registered Public Accounting Firm (filed herewith).</u>
<u>31.1</u>	<u>Certification by Chief Executive Officer pursuant to Sarbanes Oxley Section 302 (filed herewith).</u>
<u>31.2</u>	<u>Certification by Chief Financial Officer pursuant to Sarbanes Oxley Section 302 (filed herewith).</u>
<u>32.1</u>	<u>Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith).</u>
<u>32.2</u>	<u>Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith).</u>
101.INS	XBRL Instance Document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).

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

SIGNATURES

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.

eMAGIN CORPORATION

Date: January 30, 2020

By: /s/ Jeffrey P. Lucas

Jeffrey P. Lucas
President and Chief Financial Officer,
(Principal Financial and Accounting Officer)

To the Shareholders and the Board of Directors of eMagin Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of eMagin Corporation and its subsidiary (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has an accumulated deficit and suffered recurring losses from operations. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2011.

Stamford, Connecticut
March 28, 2019

eMAGIN CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,359	\$ 3,526
Accounts receivable, net	3,186	4,528
Unbilled accounts receivable	224	406
Inventories	8,582	8,640
Prepaid expenses and other current assets	875	1,328
Total current assets	16,226	18,428
Equipment, furniture and leasehold improvements, net	8,921	8,553
Intangibles and other assets	269	326
Total assets	\$ 25,416	\$ 27,307
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,024	\$ 1,714
Accrued compensation	1,634	1,557
Revolving credit facility, net	—	3,808
Common stock warrant liability	1,497	784
Other accrued expenses	1,827	719
Deferred revenue	38	765
Other current liabilities	427	469
Total current liabilities	7,447	9,816
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$.001 par value: authorized 10,000,000 shares:		
Series B Convertible Preferred stock, (liquidation preference of \$5,659) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of December 31, 2018 and 2017		
	—	—
Common stock, \$.001 par value: authorized 200,000,000 shares, issued 45,323,339 shares, outstanding 45,161,273 shares as of December 31, 2018 and issued 35,182,589 shares, outstanding 35,020,523 shares as of December 31, 2017		
	45	35
Additional paid-in capital	254,736	244,726
Accumulated deficit	(236,312)	(226,770)
Treasury stock, 162,066 shares as of December 31, 2018 and December 31, 2017	(500)	(500)
Total shareholders' equity	17,969	17,491
Total liabilities and shareholders' equity	\$ 25,416	\$ 27,307

See notes to Consolidated Financial Statements.

eMAGIN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Twelve Months Ended December 31,	
	2018	2017
Revenues:		
Product	\$ 23,322	\$ 18,685
Contract	2,913	3,346
Total revenues, net	26,235	22,031
Cost of revenues:		
Product	17,797	15,195
Contract	1,754	1,712
Impairment of Consumer Night Vision Business inventory	2,690	—
Total cost of revenues	22,241	16,907
Gross profit	3,994	5,124
Operating expenses:		
Research and development	6,694	5,175
Selling, general and administrative	8,967	8,682
Total operating expenses	15,661	13,857
Loss from operations	(11,667)	(8,733)
Other income (expense):		
Change in fair value of common stock warrant liability	2,194	1,089
Interest expense, net	(69)	(363)
Other income, net	—	12
Total other income	2,125	738
Income (loss) before provision for income taxes	(9,542)	(7,995)
Income tax benefit	—	212
Net loss	\$ (9,542)	\$ (7,783)
Loss per share, basic	\$ (0.21)	\$ (0.23)
Loss per share, diluted	\$ (0.21)	\$ (0.23)
Weighted average number of shares outstanding:		
Basic	44,429,114	33,661,727
Diluted	44,429,114	33,661,727

See notes to Consolidated Financial Statements.

eMAGIN CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except share data)

	Preferred Shares	Preferred Stock	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2016	5,659	—	31,788,582	32	239,915	(218,987)	(500) \$	20,460
Exercise of common stock options	—	—	94,007	—	140	—	—	140
Stock based compensation	—	—	—	—	628	—	—	628
Public offering of common shares, net of offering costs	—	—	3,300,000	3	4,043	—	—	4,046
Net loss	—	—	—	—	—	(7,783)	—	(7,783)
Balance, December 31, 2017	5,659	—	35,182,589	35	244,726	(226,770)	(500)	17,491
Exercise of common stock options	—	—	99,937	—	98	—	—	98
Exercise of common stock warrants	—	—	30,000	—	46	—	—	46
Public offering of common shares, net of offering costs	—	—	10,010,813	10	9,256	—	—	9,266
Stock based compensation	—	—	—	—	610	—	—	610
Net loss	—	—	—	—	—	(9,542)	—	(9,542)
Balance, December 31, 2018	5,659	\$ —	45,323,339	\$ 45	\$ 254,736	\$ (236,312)	\$ (500)	\$ 17,969

See notes to Consolidated Financial Statements.

eMAGIN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Twelve Months Ended	
	December 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (9,542)	\$ (7,783)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,989	2,070
Change in fair value of common stock warrant liability	(2,194)	(1,089)
Impairment of Consumer Night Vision Business inventory	2,690	—
Impairment of Consumer Night Vision Business tooling	76	—
Stock-based compensation	610	628
Changes in operating assets and liabilities:		
Accounts receivable	1,342	(1,694)
Unbilled accounts receivable	183	995
Inventories	(1,212)	(1,205)
Prepaid expenses and other current assets	49	(288)
Deferred revenues	(727)	320
Accounts payable, accrued expenses, and other current liabilities	357	(100)
Net cash used in operating activities	(6,379)	(8,146)
Cash flows from investing activities:		
Purchase of equipment	(2,296)	(1,355)
Net cash used in investing activities	(2,296)	(1,355)
Cash flows from financing activities:		
Repayments under revolving line of credit, net	(3,808)	1,885
Proceeds from public offering of common stock and warrants, net	12,172	5,919
Payments of debt issuance costs	—	(158)
Proceeds from warrant exercise, net	46	—
Proceeds from exercise of stock options	98	140
Net cash provided by financing activities	8,508	7,786
Net decrease in cash and cash equivalents	(167)	(1,715)
Cash and cash equivalents, beginning of period	3,526	5,241
Cash and cash equivalents, end of period	\$ 3,359	\$ 3,526
Cash paid for interest	\$ 106	\$ 146
Cash paid for income taxes	\$ —	\$ —

See notes to Consolidated Financial Statements.

Note 1 – Nature Of Business

eMagin Corporation and its wholly owned subsidiary, Virtual Vision, Inc. (the “Company”), designs, manufactures and supplies OLED-on-silicon microdisplays and virtual imaging products which utilize OLED microdisplays. The Company’s products are sold mainly in North America, Asia, and Europe.

Note 2 – Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of eMagin Corporation and its wholly owned subsidiary. All intercompany transactions have been eliminated in consolidation. The Company manages its operations on a consolidated, integrated basis in order to optimize its equipment and facilities and to effectively service its global customer base, and concludes that it operates in a single business segment.

Use of estimates

In accordance with accounting principles generally accepted in the United States of America, management utilizes certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments related to, among others, allowance for doubtful accounts, warranty reserves, inventory reserves, stock-based compensation expense, deferred tax asset valuation allowances, litigation and other loss contingencies. Management bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Revenue and cost recognition

All of the Company’s revenues are earned from contracts with customers and are classified as either Product or Contract revenues. Contracts include written agreements and purchase orders, as well as arrangements that are implied by customary practices or law.

Product revenue is generated primarily from contracts to produce, ship and deliver OLED microdisplays. eMagin’s performance obligations are satisfied, control of our products is transferred, and revenue is recognized at a single point in time when control transfers to our customer for product shipped. Our customary terms are FOB our factory and control is deemed to transfer upon shipment. The Company has elected to treat shipping and other transportation costs charged to customers as fulfillment activities and are recorded in both revenue and cost of sales at the time control is transferred to the customer. As customers are invoiced at the time control transfers and the right to consideration is unconditional at that time, the Company does not maintain contract asset balances for product revenue. Additionally, the Company does not maintain contract liability balances for product revenues, as performance obligations are satisfied prior to customer payment for product. The Company offers a one-year product warranty, for replacement of product only, and does not allow returns. The Company offers industry standard payment terms that typically require payment from our customers from 30 to 60 days after title transfers.

The Company also recognizes revenues under the over time method from certain research and development (“R&D”) activities (contract revenues) under both firm fixed-price contracts and cost-type contracts. Progress and revenues from research and development activities relating to firm fixed-price contracts and cost-type contracts are generally recognized on an input method of accounting as costs are incurred. Under the input method, revenue is recognized based on efforts expended to date (e.g., the costs of resources consumed or labor hours worked, or machine hours used) relative to total efforts intended to be expended. Contract costs include all direct material, labor and subcontractor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party. Any changes in estimate related to contract accounting are accounted for prospectively over the remaining life of the contract. Under the over time method, billings may not correlate directly to the revenue recognized. Based upon the terms of the specific contract, billings may be in excess of the revenue recognized, in which case the amounts are included in deferred revenues as a liability on the Consolidated Balance Sheets. Likewise, revenue recognized may exceed customer billings in which case the amounts are reported as unbilled receivables. Unbilled revenues are expected to be billed and collected within one year. The incidental costs related to obtaining product sales contracts are non-recoverable from customers; and accordingly, are expensed as incurred.

The Company adopted the provisions of ASC No. 606, *Revenue from Contracts with Customers*, and related amendments ("ASC 606") on January 1, 2018 using the modified retrospective adoption method with the cumulative effect of initially applying the guidance recognized at the date of initial application. During 2017, the Company analyzed its revenue recognition policies under ASC 606 and then current revenue recognition policies and determined that the performance obligations, transaction price, allocation of transaction price, recognition of contract costs and timing of revenue recognition would not be materially impacted by adopting ASC 606. Accordingly, there was no modified retrospective adoption adjustment necessary as of January 1, 2018.

Product warranty

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

The following table provides a summary of the activity related to the Company's warranty liability, included in other current liabilities, during the years ended December 31, 2018 and 2017 (in thousands):

	Twelve Months Ended December 31,	
	2018	2017
Beginning balance	\$ 468	\$ 584
Warranty accruals and adjustments	132	136
Warranty claims	(177)	(252)
Ending balance	<u>\$ 423</u>	<u>\$ 468</u>

Research and development expenses

Research and development costs are expensed as incurred.

Cash and cash equivalents

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

Accounts receivable

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

Unbilled accounts receivable

Unbilled receivables principally represent revenues recorded under the over time method of accounting that have not been billed to customers in accordance with the contractual terms of the arrangement. We anticipate that the majority of the balance at December 31, 2018 will be collected during the 2019 fiscal year. As of December 31, 2018 and 2017, unbilled accounts receivable was \$0.2 million and \$ 0.4 million, respectively.

Allowance for doubtful accounts

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

Inventories

Inventories are stated on a standard cost basis adjusted to approximate the lower of cost (as determined by the first-in, first-out method) or net realizable value. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. The Company regularly reviews inventory quantities on hand, future purchase commitments with the Company's suppliers, and the estimated utility of the inventory. If the Company review indicates a reduction in utility below carrying value, the inventory is reduced to a new cost basis.

Equipment, furniture and leasehold improvements

Equipment, furniture and leasehold improvements are stated at cost. Depreciation on equipment is calculated using the straight-line method of depreciation over the estimated useful life ranging from three to 10 years. Amortization of leasehold improvements is calculated by using the straight-line method over the shorter of their estimated useful lives or lease terms. Expenditures for maintenance and repairs are charged to expense as incurred.

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

Intangible assets

Included in the Company's intangible assets are patents that are recorded at purchase price as of the date acquired and amortized over the expected useful life which is generally the remaining life of the patent. In 2014, the Company purchased several patents for \$290 thousand which are being amortized over their remaining useful life. As of December 31, 2018 and 2017, intangible assets were \$355 thousand less accumulated amortization of \$274 thousand and \$220 thousand, respectively. As of December 31, 2018, the weighted average remaining useful life of the patents was approximately 6.9 years.

Total intangible amortization expense was approximately \$54 thousand for each of the years ended December 31, 2017 and 2016, respectively. Estimated future amortization expense as of December 31, 2018 is as follows (in thousands):

Fiscal Years Ending December 31,	Total Amortization
2019	\$ 32
2020	9
2021	8
2022	8
2023	8
Later years	16
	\$ 81

Advertising

Costs related to advertising and promotion of products are charged to sales and marketing expense as incurred. There was no advertising expense for the years ended December 31, 2018 and 2017.

Shipping and handling fees

The Company includes costs related to shipping and handling in cost of goods sold.

Income taxes

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

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

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("TCJA"). This legislation makes broad and complex changes to the U.S. tax code, including, but not limited to, (i) reducing the U.S. federal statutory tax rate from 35% to 21%; (ii) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (iii) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017, and (iv) modifying the officer's compensation limitation. The Company recognizes the effects of changes in tax law, including the TCJA, in the period the law is enacted. Accordingly, the effects of the TCJA have been recognized in the financial statements for the year ended December 31, 2018 and 2017.

For additional details regarding our accounting for income taxes, see Note 10 in the accompanying consolidated financial statements.

Income (loss) per common share

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

In accordance with Accounting Standards Codification ("ASC") 260, entities that have issued securities other than common stock that participate in dividends with the common stock ("participating securities") are required to apply the two-class method to compute basic EPS. The two-class method is an earnings allocation method under which EPS is calculated for each class of common stock and participating security as if all such earnings had been distributed during the period. On December 22, 2008, the Company issued Convertible Preferred Stock – Series B which participates in dividends with the Company's common stock and is therefore considered to be a participating security. The participating convertible preferred stock is not required to absorb any net loss. The Company uses the more dilutive method of calculating the diluted earnings per share, either the two class method or "if-converted" method. Under the "if-converted" method, the convertible preferred stock is assumed to have been converted into common shares at the beginning of the period.

For the years ended December 31, 2018 and 2017, the Company reported a net loss and as a result, basic and diluted loss per common share are the same. Therefore, in calculating net loss per share amounts, shares underlying the potentially dilutive common stock equivalents were excluded from the calculation of diluted net income per common share because their effect was anti-dilutive.

The following is a table of the potentially dilutive common stock equivalents for the years ended December 31, 2018 and 2017 that were not included in diluted EPS as their effect would be anti-dilutive:

	Twelve Months Ended	
	December 31,	
	2018	2017
Options	4,678,420	4,768,838
Warrants	9,055,773	5,081,449
Convertible preferred stock	7,545,333	7,545,333
Total potentially dilutive common stock equivalents	<u>21,279,526</u>	<u>17,395,620</u>

Comprehensive income (loss)

Comprehensive income (loss) refers to net income (loss) and other revenue, expenses, gains and losses that, under generally accepted accounting principles, are recorded as an element of shareholders' equity but are excluded from the calculation of net income (loss).

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, 2018 and 2017. Accordingly, the Company's comprehensive income (loss) is the same as its net income (loss) for the periods presented.

Fair Value of Financial Instruments

Cash, cash equivalents, accounts receivable, short-term investments and accounts payable are stated at cost, which approximates fair value due to the short-term nature of these instruments. The asset based lending facility, ("ABL Facility") is also stated at cost, which approximates fair value because the interest rate is based on a market based rate plus a margin.

We have categorized our assets and liabilities that are valued at fair value on a recurring basis into three-level fair value hierarchy in accordance with GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and lowest priority to unobservable inputs (Level 3).

Assets and liabilities recorded in the balance sheets at fair value are categorized based on a hierarchy of inputs as follows:

Level 1 – Unadjusted quoted prices in active markets of identical assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 – Unobservable inputs for the asset or liability.

The common stock warrant liability discussed in Note 9 is currently the only financial assets or liability recorded at fair value on a recurring basis, and is considered a Level 3 liability. The fair value of the common stock warrant liability is included in current liabilities on the accompanying financial statements as of December 31, 2018, as the warrants are currently exercisable.

The following table shows the reconciliation of the Level 3 warrant liability measured and recorded at fair value on a recurring basis, using significant unobservable inputs (in thousands):

	<u>Estimated Fair Value</u>	
Balance as of January 1, 2018	\$	784
Fair value of warrants issuance during period		2,907
Change in fair value of warrant liability, net		<u>(2,194)</u>
Balance as of December 31, 2018	\$	<u>1,497</u>

The fair value of the liability for common stock purchase warrants at December 31, 2018 was estimated using the Black Scholes option pricing model based on the market value of the underlying common stock at the measurement date, the five year contractual term of the warrants, risk-free interest rates ranging from 2.47% to 2.49%; no expected dividends and expected volatility of the price of the underlying common stock ranging from 42.1 % to 48.7%.

Stock-based compensation

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

Derivative Financial Instruments

The Company evaluates all financial instruments, including issued stock purchase warrants, to determine if such instruments are derivatives or contain features qualifying as embedded derivatives. For derivative financial instruments accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statement of operations. The Company uses the Black-Scholes option-pricing model to value the derivative instruments at inception and subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks.

Concentration of credit risk

The majority of eMagin's products are sold throughout North America, Asia, and Europe. Sales to the Company's recurring customers are made generally on open account while sales to occasional customers are typically made on a prepaid basis. eMagin performs periodic credit evaluations on its recurring customers and generally does not require collateral. An allowance for doubtful accounts is maintained for credit losses.

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and short-term investments. The Company's cash and cash equivalents are deposited with financial institutions which, at times, may exceed federally insured limits. The Company invests surplus cash in a government money market fund that consists of U.S

Government obligations and repurchase agreements collateralized by U.S. Government Obligations, which is not insured. To date, the Company has not experienced any loss associated with this risk.

Concentrations

The Company purchases principally all of its silicon wafers, which are a key ingredient in its OLED production process, from two suppliers located in Taiwan and Korea.

For the year ended December 31, 2018, no single customer accounted for over 10% of net revenues. For year ended December 31 2017, one customer accounted for over 11% of net revenues. As of December 31, 2018, we had accounts receivable balances from 51 customers in total, and four customers individually had balances of 15%, 12%, 10% and 10%, respectively, of the Company's consolidated accounts receivable balance and no other single customer accounted for over 10% of the consolidated accounts receivable. At December 31, 2017, the Company had two customers that accounted for 12% and 9% of accounts receivable.

Liquidity and Going Concern

The accompanying consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will continue to operate as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. For the year ended December 31, 2018, the Company incurred a net loss of \$9.5 million and used cash in operating activities of \$6.4 million. At December 31, 2018, the Company had cash and cash equivalents of \$3.4 million, net working capital of \$8.8 million, no outstanding debt, and borrowing availability under its ABL Facility of \$4.1 million.

Due to continuing losses, the Company's financial position, and uncertainty regarding the Company's ability to borrow under its ABL Facility, the Company may not be able to meet its financial obligations as they become due without additional financing or sources of capital. Management is prepared to reduce expenses and raise additional capital, but there can be no assurance that the Company will be successful in sufficiently reducing expenses or raising capital to meet its operating needs.

The Company's ABL Facility expires on December 31, 2019 and, while relations with the lender are positive, there is no assurance the lender will renew or extend this facility, or continue to make funds available during 2019 and beyond at present availability levels, or at all. Therefore, in accordance with applicable accounting guidance, and based on the Company's current financial condition and availability of funds, there is substantial doubt about the Company's ability to continue as a going concern through March 31, 2020.

Based on the Company's current projections and the availability of the ABL Facility, the Company estimates it will have sufficient liquidity through the end of the first quarter of 2020. However, there can be no assurance projected results will be achieved or funds will be available under our ABL Facility. If actual results are less than projected or additional needs for liquidity arise, the Company may be able to raise additional debt or equity financing and is prepared to reduce expenses or enter into a strategic transaction. However, the Company can make no assurance that it will be able to reduce expenses sufficiently, raise additional capital, or enter into a strategic transaction on terms acceptable to the Company, or at all.

Recently issued accounting standards

In February 2016, the FASB issued guidance which changes the accounting for leases. The guidance requires lessees to recognize a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a right-of-use specified asset for the lease term and, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis for all leases (with the exception of short-term leases). The new guidance is effective for years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied using either a modified retrospective approach, or an optional transition method which allows an entity to apply the new standard at the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company expects to adopt ASC 842 in the first quarter of 2019 using modified retrospective approach. Under the new guidance, leases previously defined as operating leases will be presented on the balance sheet. As a result, these leases will be recorded as a right-of-use asset and a corresponding lease liability at the present value of the total lease payments. The right-of-use asset will be decremented over the life of the lease on a pro-rata basis resulting in lease expense while the lease liability will be decremented using the interest method (i.e. principal and interest). The Company will elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows the Company to carry forward the historical lease classification. The Company currently expects to elect the short term lease recognition exemption for all leases that qualify. The Company is finalizing its implementation related to policies, processes and internal controls to comply with the guidance. The Company estimates that the right-of-use asset and lease liability to be recorded on its consolidated balance sheet, as of January 1, 2019 will be approximately \$4.5 million. The adoption of this pronouncement is not expected to have a material impact to the Company's consolidated statements of operations or its consolidated statement of cash flows.

In August 2018, the FASB issued guidance which adds, amends and removes certain disclosure requirements related to fair value measurements. Among other changes, this standard requires certain additional disclosure surrounding Level 3 assets, including changes in unrealized gains or losses in other comprehensive income and certain inputs in those measurements. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amended or eliminated disclosures in this standard may be adopted early, while certain additional disclosure requirements in this standard can be adopted on its effective date. In addition, certain changes in the standard require retrospective adoption, while other changes must be adopted prospectively. The Company is currently evaluating the impact of this guidance on the Company's disclosures; however, this guidance does not have a material impact the Company's financial statements.

Note 3- Impairment of Consumer Night Vision Business Assets

During the quarter ended June 30, 2018 the Company made a decision to exit the business associated with its two consumer night vision products, BlazeSpark and BlazeTorch (the "Consumer Night Vision Business"). The Company's decision was based on lower than anticipated sales and an assessment performed during the quarter of the anticipated level of additional engineering, marketing and financial resources necessary to modify the products for an expanded market. As a result, the Company concluded an impairment had occurred and wrote-down \$2.7 million of related Consumer Night Vision Business inventory, which includes an accrual of \$1.4 million of inventory purchased by a contract manufacturer in anticipation of future production, and \$0.1 million of production tooling, which are reflected in cost of revenues in the accompanying Consolidated Statements of Operations.

Note 4 – Revenue Recognition

All of the Company's revenues are earned from contracts with customers and are classified as either Product or Contract revenues. Contracts include written agreements and purchase orders, as well as arrangements that are implied by customary practices or law.

Disaggregation of Revenue

The Company sells products directly to military contractors and OEM's and who use its displays in a diverse range of applications encompassing the military, and commercial, including medical and industrial, market sectors. Revenues are classified as either military, commercial, consumer or multiple based on management's knowledge of the customer's products and markets served by its displays or the R&D contract work. Revenues classified as Multiple are for sales to customers that incorporate the Company's displays in products that could be used for either Military or Commercial applications. R&D activities are performed for both military customers and U.S. Government defense related agencies and consumer companies. Product and Contract revenues are disclosed on the Consolidated Statements of Operations. Additional disaggregated revenue information for the years ended December 31, 2018 and 2017 were as follows (in thousands):

	Twelve Months Ended December 31,	
	2018	2017
North and South America	\$ 13,969	\$ 11,834
Europe, Middle East, and Africa	9,157	7,299
Asia Pacific	3,109	2,898
Total	\$ 26,235	\$ 22,031

	Twelve Months Ended December 31,	
	2018	2017
Military	75 %	64 %
Commercial, including industrial and medical	10 %	11 %
Consumer	6 %	14 %
Multiple	9 %	11 %
	100 %	100 %

Accounts Receivable from Customers Accounts receivable, net of allowances, associated with revenue from customers were approximately \$3.2 million and \$4.5 million as of December 31, 2018 and 2017, respectively.

Contract Assets and Liabilities

Unbilled Accounts Receivables (Contract Assets) - Pursuant to the over time revenue recognition model, revenue may be recognized

prior to the customer being invoiced. An unbilled accounts receivable is recorded to reflect revenue that is recognized when the proportional performance method is applied and such revenue exceeds the amount invoiced to the customer. Unbilled receivables are disclosed on the Consolidated Balance Sheet as of December 31, 2018.

Customer Advances and Deposits (Contract Liabilities)

The Company recognizes a contract liability when it has billed and received consideration from the customer pursuant to the terms of a contract but has not yet recognized the related revenue. These billings in excess of revenue are classified as deferred revenue on the Consolidated Statements of Operations.

Total contract assets and liabilities consisted of the following amounts (in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unbilled Receivables (contract assets)	\$ 224	\$ 406
Deferred Revenue (contract liabilities)	(38)	(765)
Net contract asset (liability)	<u>\$ 186</u>	<u>\$ (359)</u>

During the year ended December 31, 2018, the Company recognized \$721 thousand of revenue related to its contract liabilities that existed at December 31, 2017.

Remaining Performance Obligations. The Company has elected the practical expedient, which allows disclosure of remaining performance obligations only for contracts with an original duration of greater than one year. Such remaining performance obligations primarily relate to engineering and design services. As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was \$1.1 million. The Company expects to recognize revenue on all of its remaining performance obligations over the next 12 months.

Note 5 – Accounts Receivable, net

Accounts receivable consisted of the following (in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	\$ 3,325	\$ 4,643
Less allowance for doubtful accounts	(139)	(115)
Accounts receivable, net	<u>\$ 3,186</u>	<u>\$ 4,528</u>

Note 6 – Inventories, net

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Raw materials	\$ 3,701	\$ 4,054
Work in process	1,033	1,352
Finished goods	4,888	5,024
Total inventories	9,622	10,430
Less inventory reserve	(1,040)	(1,790)
Total inventories, net	<u>\$ 8,582</u>	<u>\$ 8,640</u>

Note 7 – Prepaid Expenses and Other Current Assets

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

	December 31,	
	2018	2017
Vendor prepayments	\$ 702	\$ 755
Other prepaid expenses	173	573
Total prepaid expenses and other current assets	<u>\$ 875</u>	<u>\$ 1,328</u>

Note 8 – Equipment, Furniture and Leasehold Improvements

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

	December 31,	
	2018	2017
Computer hardware and software	\$ 800	\$ 693
Lab and factory equipment	17,107	15,678
Furniture, fixtures and office equipment	48	47
Assets under capital leases	66	66
Construction in progress	2,114	1,672
Leasehold improvements	22	-
Total equipment, furniture and leasehold improvements	<u>20,157</u>	<u>18,156</u>
Less: accumulated depreciation	<u>(11,236)</u>	<u>(9,603)</u>
Equipment, furniture and leasehold improvements, net	<u>\$ 8,921</u>	<u>\$ 8,553</u>

Depreciation expense was \$1.9 million and \$1.8 million for the years ended December 31, 2018 and 2017, respectively. Assets under capital leases are fully amortized.

Note 9– Debt

	2018	2017
Revolving credit facility	\$ —	\$ 3,974
Less: unamortized debt issuance costs	—	(166)
Revolving credit facility, net	<u>\$ —</u>	<u>\$ 3,808</u>

On December 21, 2016, the Company entered into a new ABL Facility with a lender that provides for up to a maximum amount of \$5 million based on a borrowing base equivalent of 85% of eligible accounts receivable plus the lesser of \$2 million or 50% of eligible inventory. The interest on the ABL Facility is equal to the Prime Rate plus 3% but may not be less than 6.5% with a minimum monthly interest payment of \$2 thousand. The Company shall pay the lender a monthly administrative fee of \$1 thousand and an annual facility fee equal to 1% of the maximum amount borrowable under the facility. As of December 31, 2018, the interest rate on outstanding borrowings was 8.5%. The ABL Facility will automatically renew on December 31, 2019 for a one-year term unless written notice to terminate the agreement is provided by either party. In conjunction with entering into the financing, the Company incurred \$228 thousand of debt issuance costs including lender and legal costs that will be amortized over the life of the ABL Facility. In accordance with recently issued accounting guidance, the revolving credit facility balance is presented net of these unamortized debt issuance costs on the accompanying Consolidated Balance Sheet. The ABL Facility agreement contains certain lenders remedies that upon events of default, give the bank the ability to terminate the facility before the scheduled maturity date. Accordingly, the Company classifies borrowing under the ABL facility as current liabilities on the accompanying balance sheets.

The ABL Facility is secured by a lien on all receivables, property and the proceeds thereof, credit insurance policies and other insurance relating to the collateral, books, records and other general intangibles, inventory and equipment, proceeds of the collateral and accounts, instruments, chattel paper, and documents. Collections received on accounts receivable are directly used to pay down the outstanding borrowings on the credit facility.

The ABL Facility contains customary representations and warranties, affirmative and negative covenants and events of default. The Company is required to maintain a minimum tangible net worth of \$13 million and a minimum working capital balance of \$4 million at all times. As of December 31, 2018, we had unused borrowing availability of \$4.1 million and were in compliance with all financial debt covenants.

For the years ended December 31, 2018 and 2017, interest expense includes interest paid, or accrued, and amortization or write-off of debt issuance costs of approximately \$82 thousand and \$363 thousand, respectively, on outstanding debt.

On March 24, 2017, the Company entered into an unsecured debt financing arrangement with Stillwater Trust LLC, an investor who, with affiliates, collectively controlled approximately 46% of the Company's outstanding common stock. The agreement provided that the Company could borrow, through June 30, 2018, up to \$2 million for general working capital purposes and up to an additional \$3 million if the Company's lender did not provide borrowing availability under its normal terms and conditions through its ABL facility. The agreement expired and borrowings would become due upon the earlier of June 30, 2020; or the completion of one or a series of equity financings which raise collectively \$5 million or greater of gross proceeds. In accordance with the terms of the agreement, this arrangement expired on May 24, 2017, upon the completion of an equity offering. Upon termination of this facility, the Company wrote off \$158 thousand of related debt issuance costs, and recorded a charge to interest expense in the second quarter of 2017.

Note 10 – Income Taxes

New Tax Legislation

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("TCJA"). This legislation makes broad and complex changes to the U.S. tax code, including, but not limited to, (i) reducing the U.S. federal statutory tax rate from 35% to 21%; (ii) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (iii) modifying the officer's compensation limitation, and (iv) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. Specifically, the TCJA limits the amount the Company is able to deduct for net operating loss carryforwards generated in taxable years beginning after December 31, 2017 to 80% of taxable income however these net operating loss carryforwards can be carried forward indefinitely. The Company recognizes the effects of changes in tax law, including the TCJA, in the period the law is enacted. Accordingly, the effects of certain provisions of the TCJA have been recognized in the financial statements for the year ended December 31, 2017. As a result of the change in law, the Company recorded a reduction to its deferred tax assets of \$19.0 million and a corresponding reduction to its valuation allowance due to the reduction in the U.S. federal statutory rate from 35% to 21%. In addition, the Company expects to file a claim for a federal tax refund of approximately \$0.2 million for its AMT credit carryforward in tax years 2018 to 2021 pursuant to the applicable provisions of the TCJA.

The Company's preliminary estimate of the effects of the TCJA undertaken at December 31, 2017, including the remeasurement of deferred tax assets and liabilities and the recognition of an income tax benefit related to AMT tax credit carryforwards, was subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the TCJA and the filing of the Company's tax returns. During 2018, the Company determined that its preliminary estimates were correct and has not recorded any material adjustments related to the finalization of its analysis.

U.S. Treasury regulations, administrative interpretations or court decisions interpreting the TCJA may require further adjustments and changes in our estimates. In all cases, we will continue to make and refine our analysis and calculations as additional information and guidance becomes available and as we gain a more thorough understanding of the tax law.

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

	For the Years Ended December 31,	
	2018	2017
Domestic, current	\$ (9,542)	\$ (7,995)
Total	\$ (9,542)	\$ (7,995)

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

	For the Years Ended December 31,	
	2018	2017
Deferred tax assets:		
Federal and state net operating loss carryforwards	\$ 30,350	\$ 28,399
Research and development tax credit carryforwards	2,438	2,338
Stock based compensation	1,470	1,674
Other provision and expenses not currently deductible	1,345	877
Total deferred tax assets	35,603	33,288
Deferred tax liabilities:		
Depreciation and amortization	(726)	(721)
Prepaid expenses	(151)	(94)
Total deferred liabilities	(877)	(815)
Less valuation allowance	(34,726)	(32,473)
Net deferred tax asset	\$ —	\$ —

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

As of December 31, 2018, the Company's deferred tax assets were generated primarily from the federal and state net operating loss, stock based compensation and research and development tax credits. In assessing the realizability of deferred tax assets, management determined that it is more likely than not that none of the deferred tax assets will be realized. Therefore, the Company has provided a full valuation allowance against the deferred tax assets at December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the Company had net deferred tax assets before its valuation allowance of approximately \$35 million and \$32 million, respectively.

During the year ended December 31, 2018, the Company did not utilize its prior years' net operating loss carryforwards. As of December 31, 2018, eMagin has federal and state net operating loss carryforwards of approximately \$142.6 million and \$9.0 million, respectively. The federal research and development tax credit carryforwards are approximately \$2.4 million. The federal net operating losses and tax credit carryforwards will expire as follows:

	Net Operating Losses	Research and Development Tax Credits
	(in thousands)	
2018-2020	\$ 30,281	\$ 809
2021-2024	41,283	-
2025-2037	71,055	1,629
	\$ 142,619	\$ 2,438

The utilization of net operating losses can be subject to a limitation due to the change of ownership provisions under Section 382 of the Internal Revenue Code and similar state provisions. Such limitation may result in the expiration of the net operating losses before their utilization. The Company has done an analysis regarding prior year ownership changes, and it has been determined that the Section 382 limitation on the utilization of net operating losses will currently not materially affect the Company's ability to utilize its net operating losses.

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

	For the Years Ended	
	December 31,	
	2018	2017
U.S. Federal income tax benefit at federal statutory rate	21 %	34 %
Change in valuation allowance as a result of TCJA	-	(228)
Change in valuation allowance	(21)	217
Cumulative adjustment for NQSO compensation expense	(3)	(24)
Other, net	3	1
Effective tax rate	- %	- %

The Company did not have unrecognized tax benefits at December 31, 2018 and 2017. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2018 and 2017, the Company recognized no interest and penalties.

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

Note 11 – Warrant Liability

We account for common stock warrants pursuant to applicable accounting guidance contained in ASC 815 "Derivatives and Hedging - Contracts in Entity's Own Equity" and make a determination as to their treatment as either equity instruments or a warrant liability.

During January 2018, in conjunction with a registered equity offering and a concurrent private placement that closed in February 2018, the Company issued warrants to purchase an aggregate of 4,004,324 common shares at an exercise price of \$1.55. As of December 31, 2018, related warrants to purchase 3,974,324 shares of common stock remain outstanding. The warrants have alternative settlement provisions that, at the option of the holder, provide for physical settlement or if, at the time of settlement there is no effective registration statement, a cashless exercise, as defined in the warrant agreement. In addition, in May 2017 the Company issued warrants to purchase an aggregate of 1,650,000 shares at an exercise price of \$1.65 that have similar alternative settlement provisions.

Based on analysis of the underlying warrant agreements, and applicable accounting guidance, the Company concluded that these registered warrants require the issuance of registered securities upon exercise and do not sufficiently preclude an implied right to net cash settlement. Accordingly, these warrants were classified on the Consolidated Balance Sheets as a current liability upon issuance and are revalued at each subsequent balance sheet date.

The fair value of the liability for common stock purchase warrants is estimated using the Black Scholes option pricing model based on the market value of the underlying common stock at the measurement date, the contractual term of the warrant, risk-free interest rates, expected dividends and expected volatility of the price of the underlying common stock.

We recorded the liability for the common stock warrants issued in January and February 2018 at an initial fair value of \$2.9 million, and a fair value as of December 31, 2018 of \$1.5 million. The warrants the company issued in May 2017, had a fair value of \$0.8 million at December 31, 2017 and \$0.2 million as of December 31, 2018. The combined changes in fair value are reflected as income from change in the fair market value of common stock warrant liability of \$2.2 million and \$1.1 million in the consolidated statement of operations for the years ended December 31, 2018 and 2017, respectively.

Note 12 – Shareholders' Equity

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

The Company has designated 10,000 shares of the Company's preferred stock as Preferred Stock – Series B at a stated value of \$1,000 per share. The Preferred Stock – Series B is convertible into common stock at a conversion price of \$0.75 per share. The holders of the Preferred Stock – Series B are not entitled to receive dividends unless the Company's Board of Directors declare a dividend for holders of the Company's common stock and then the dividend shall be equal to the amount that such holder would have been entitled to receive if the holder converted its Preferred Stock – Series B into shares of the Company's common stock. In the event of a liquidation, dissolution, or winding up of the Company, the Preferred Stock – Series B is entitled to receive liquidation preference before the Common Stock. The Company may at its option redeem the Preferred Stock – Series B by providing the required notice to

the holders of Preferred Stock – Series B and paying an amount equal to \$1,000 multiplied by the number of shares for all of such holder's shares of outstanding Preferred Stock – Series B to be redeemed.

As of December 31, 2018 and 2017, there were 5,659 shares of Preferred Stock – Series B issued and outstanding.

Common Stock

During the year ended December 31, 2018, options to purchase 99,937 shares were exercised for proceeds of \$98 thousand; and warrants to purchase 30,000 shares were exercised for proceeds of \$46 thousand.

Underwritten Public Offerings

On May 24, 2017, the Company completed an underwritten offering of 3,300,000 shares of its common stock at an offering price of \$2.00 and warrants to purchase up to 1,650,000 shares of common stock and realized net proceeds of \$5.9 million dollars after underwriting discounts and offering expenses. The shares and warrants were purchased by a single institutional investor and by Stillwater, LLC, an affiliate of the Company. The Warrants have an exercise price of \$2.45 per common share and a term of five years.

On January 25, 2018 the Company entered into an underwriting agreement to issue and sell 9,807,105 shares of Company Common Stock, together with warrants to purchase 3,922,842 shares of Common Stock with an initial exercise price of \$1.55 per share (at a public offering price of \$1.35 per fixed combination consisting of one share of Common Stock and associated warrant to purchase four tenths of one share of Common Stock). The offering closed on January 29, 2018 and the Company received net proceeds after underwriting discounts and expenses of \$11.9 million.

In a concurrent private placement, certain of our directors and officers purchased an aggregate of 203,708 shares of Common Stock, together with warrants to purchase up to 81,487 shares of Common Stock at the public offering price of \$1.35 per fixed combination. The private placement closed on February 15, 2018, and the Company received net proceeds of \$0.3 million.

In August 2011, our Board of Directors approved a stock repurchase plan authorizing us to repurchase our common stock not to exceed \$2.5 million in total value. No shares were repurchased subsequent September 2012. As of December 31, 2017, authorization to repurchase \$2.0 million in value of our common stock remained under this plan.

Warrant Transactions

On August 24, 2016, in consideration for the exercise of the 2,216,500 warrant shares, we issued new common stock purchase warrants (the "New Warrants") to purchase 2,947,949 shares of our common stock which is equal to 133% of the 2,216,500 warrant shares exercised. The New Warrants have an exercise price of \$2.60 per share, and are not exercisable for six months from the date of issuance, and have a term of five and a half years from the issuance date.

We raised approximately \$4.3 million in net proceeds from the transaction, which was used for general corporate purposes.

At December 31, 2018, there were New Warrants outstanding to purchase 2,947,949 shares of Company's common stock at an exercise price of \$2.60, which expire in February 2023. Warrants to purchase 383,500 shares remaining from the December 2015 issuance were outstanding at December 31, 2018 at an exercise price of \$2.05, which expire in June 2021.

In addition, on March 24, 2017 a warrant to purchase 100,000 shares of common stock at an exercise price of \$2.25 per share, was issued in conjunction with an unsecured line of credit as described in Note 7: Line of Credit, all of which remain outstanding as of December 31, 2018.

On May 24, 2017, as described above, the Company issued warrants to purchase up to 1,650,000 shares of common stock at an exercise price of \$2.45 in conjunction with a public offering, all of which remain outstanding as of December 31, 2018. As described above, in Note 11. Warrant Liability, the Company determined that these warrants are subject to liability accounting.

In January and February 2018, the Company issued warrants to purchase up to 4,007,689 shares of its common stock at an exercise price of \$1.55 in conjunction with a public offering and concurrent private placement. The Company determined that these warrants are subject to liability accounting and warrants to purchase 3,977,689 shares remain outstanding at December 31, 2018.

Based on applicable accounting guidance contained in ASC 815 "Derivatives and Hedging - Contracts in Entity's Own Equity", the Company has determined that all of its outstanding warrants qualify as equity instruments, with the exception of the May 2017, and January and February 2018 Warrants described above.

Employee stock purchase plan

In 2005, the shareholders approved the 2005 Employee Stock Purchase Plan (“ESPP”). The ESPP provides the Company’s employees with the opportunity to purchase common stock through payroll deductions. Employees may purchase stock semi-annually at a price that is 85% of the fair market value at certain plan-defined dates. At December 31, 2016, the number of shares of common stock available for issuance was 300,000. As of December 31, 2018, the plan had not been implemented.

Incentive compensation plans

The 2017 Incentive Stock Plan (the “2017 Plan”) adopted and approved by the shareholders on May 25, 2017 provides for grants of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. The 2017 Plan has an aggregate of 2.0 million shares. In 2018, there were 587,350 options granted from this plan. Vesting terms of the options range from immediate vesting to a ratable vesting period of 5 years. Option activity for the year ended December 31, 2018 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	4,768,838	\$ 3.02		
Options granted	587,350	1.78		
Options exercised	(99,937)	0.98		
Options forfeited	(66,667)	1.78		
Options cancelled or expired	(511,164)	4.15		
Outstanding at December 31, 2018	4,678,420	\$ 2.81	4.10	\$ 12,375
Vested or expected to vest at December 31, 2018	(1) 4,671,164	\$ 2.81	4.17	\$ 12,375
Exercisable at December 31, 2018	4,315,667	\$ 2.87	4.04	\$ 12,375

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

At December 31, 2018, there were 980,540 shares available for grant under the 2017 Plans. There are 100,428 shares available for grant under older plans.

The aggregate intrinsic value in the table above represents the difference between the exercise price of the underlying options and the quoted price of the Company’s common stock on December 31, 2018 for the options that were in-the-money. As of December 31, 2018 there were 12,375 options that were in-the-money. The Company’s closing stock price was \$1.03 as of December 31, 2018. The Company issues new shares of common stock upon exercise of stock options. The intrinsic value of the 2018 options exercised was \$77 thousand.

Stock-based compensation

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

The following table summarizes the allocation of non-cash stock-based compensation to the Company’s expense categories for the years ended December 31, 2018 and 2017 (in thousands):

	Twelve Months Ended December 31,	
	2018	2017
Cost of revenues	\$ 36	\$ 24
Research and development	95	97
Selling, general and administrative	479	507
Total stock compensation expense	\$ 610	\$ 628

At December 31, 2017, total unrecognized compensation costs related to stock options was approximately \$0.5 million, net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures and is expected to be recognized over a weighted average period of approximately 1.1 years.

The following key assumptions were used in the Black-Scholes option pricing model to determine the fair value of stock options granted:

	Twelve Months Ended	
	December 31,	
	2018	2017
Dividend yield	0 %	0 %
Risk free interest rates	2.16-2.75 %	0.71-1.65 %
Expected volatility	46.4 to 50.0 %	45.3 to 59.4 %
Expected term (in years)	3.5 to 4.75	3.5 to 5.0

The weighted average fair value per share for options granted in 2018 and 2017 was \$1.70 and \$0.86, respectively.

There were no dividends declared or paid in 2018 or 2017. The Company does not expect to pay dividends in the near future; therefore, it used an expected dividend yield of 0%. The risk-free interest rate used in the Black-Scholes option pricing model is based on the implied yield at the time of grant available on U.S. Treasury securities with an equivalent term. Expected volatility is based on the weighted average historical volatility of the Company's common stock for the equivalent term. The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on historical experience and vesting schedules of similar awards.

Note 14 – Commitments and Contingencies

Operating Leases

The Company leases office facilities and office, lab and factory equipment under operating leases. Certain leases provide for payments of monthly operating expenses. The Company currently has lease commitments for space in Hopewell Junction, New York, and Santa Clara, California.

The Company's corporate headquarters and manufacturing facilities are located in Hopewell Junction, New York. The Company leases approximately 42,000 square feet to house its equipment for OLED microdisplay fabrication, for research and development, and for administrative offices. The lease expires in May 2024. The Company leases approximately 2,000 square feet of office space for design and product development in Santa Clara, California and the lease expires in October 2019.

Rent expense was approximately \$1.0 million for each of the years ended December 31, 2018 and 2017. The future minimum lease payments for the years 2018 through 2024 are \$1.0 million annually.

Equipment Purchase Commitments

The Company has committed to equipment purchases of approximately \$0.8 million at December 31, 2018.

Employee benefit plans

eMagin has a defined contribution plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code, which is available to all employees who meet established eligibility requirements. Employee contributions are generally limited to 15% of the employee's compensation. Under the provisions of the 401(k) Plan, eMagin may match a portion of the participating employees' contributions. For the years ended December 31, 2018 and 2017, there was no employer match.

Change in Control agreements

On November 8, 2017, the Company entered into change in control agreements with certain of its executive officers, non-executive officers and managers. The change in control agreements provide that if the executive's employment is terminated within the twelve-month period following a change in control of the Company, each executive officer will be entitled to receive a lump sum cash payment equal to their annual base salary and that the Company will pay the Executive's monthly COBRA health continuation premiums for up to twelve months subsequent to the termination date. The change in control agreements signed with certain non-executive officers and managers are on similar terms, but upon an event of termination, provide for one-half of annual base salary and payment of monthly Cobra health continuation payment for up to six months.

Litigation

From time to time, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company accrues for losses related to litigation when a potential loss is probable and the loss can be reasonably estimated. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. All estimates are based on the best information available at the time which can be highly subjective.

During 2015, the Company received a letter from an attorney representing a former employee claiming damages for age discrimination and wrongful termination. In September 2016, this former employee commenced action against the Company in Superior Court for the State of Washington. In February 2017, the former employee's counsel sent a discovery request to the Company. In December 2017, the parties reached a settlement, upon signature of a related agreement, the expiration of a revocation period and payment of an amount not material to the Company.

Note 15 – Quarterly Financial Information (Unaudited)

Summarized quarterly financial information for 2018 and 2017 are as follows (in thousands except share data):

	Quarters Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Revenues	\$ 6,867	\$ 7,066	\$ 6,867	\$ 5,435
Gross profit	\$ 1,980	\$ 106	\$ 2,379	\$ (471)
Net income (loss) before income tax	\$ (2,081)	\$ (5,065)	\$ 63	\$ (2,459)
Net loss	\$ (2,081)	\$ (5,065)	\$ 63	\$ (2,459)
Net loss per share - basic	\$ (0.05)	\$ (0.11)	\$ -	\$ (0.05)
Net loss per share - diluted	\$ (0.05)	\$ (0.11)	\$ -	\$ (0.05)
Weighted average number of shares outstanding - basic	42,255,189	45,111,273	45,149,717	45,161,273
Weighted average number of shares outstanding - diluted	42,255,189	45,111,273	45,265,370	45,161,273

	Quarters Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Revenues	\$ 6,069	\$ 5,260	\$ 4,280	\$ 6,422
Gross profit	\$ 1,818	\$ 1,249	\$ 278	\$ 1,779
Net loss before income tax	\$ (1,999)	\$ (2,322)	\$ (2,587)	\$ (1,087)
Net loss	\$ (1,999)	\$ (2,322)	\$ (2,587)	\$ (875)
Net loss per share - basic	\$ (0.06)	\$ (0.08)	\$ (0.09)	\$ (0.03)
Net loss per share - diluted	\$ (0.06)	\$ (0.08)	\$ (0.09)	\$ (0.03)
Weighted average number of shares outstanding - basic	31,628,997	33,019,478	34,972,589	34,989,530
Weighted average number of shares outstanding - diluted	31,628,997	33,019,478	34,972,589	34,989,530

- (1) During preparation of its 2017 audited financial statements, the Company determined that common stock purchase warrants issued in May 2017, which were originally classified as equity instruments, should have been accounted for as a liability with subsequent changes in fair value reflected in the consolidated statement of operations. The unaudited results for the quarters ended June 30, and September 30, 2017 presented above, reflect an expense of \$51 thousand and income of \$405 thousand, respectively, related to changes in the fair value of this liability. Accordingly, the second and third quarter 2017 results presented above differ from the unaudited results originally filed for these periods.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements, as amended (No. 333-222375) on Form S-1, (No. 333-222682) on Form S-1MEF, (Nos. 333-179219, 333-189300, 333-219968, and 333-235672) on Form S-8 and (Nos. 333-215261 and 333-218838) on Form S-3 of eMagin Corporation of our report dated March 28, 2019, relating to the consolidated financial statements of eMagin Corporation, appearing in this Amendment No. 2 to the Annual Report on Form 10-K/A of eMagin Corporation for the year ended December 31, 2018.

/s/ RSM US LLP

Stamford, Connecticut
January 30, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Andrew G. Sculley, certify that:

1. I have reviewed this Amendment No. 2 to the annual report on Form 10-K/A of eMagin Corporation.
2. Based on my knowledge, this Amendment No. 2 to the annual report on Form 10-K/A does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

Dated: January 30, 2020

By: /s/ Andrew G. Sculley
Andrew G. Sculley
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Jeffrey P. Lucas, certify that:

1. I have reviewed this Amendment No. 2 to the annual report on Form 10-K/A of eMagin Corporation.
2. Based on my knowledge, this Amendment No. 2 to the annual report on Form 10-K/A does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

Dated: January 30, 2020

By: /s/ Jeffrey P. Lucas

Jeffrey P. Lucas
President and Chief Financial Officer
(Principal Accounting and Financial
Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of eMagin Corporation (the "Company") on Form 10-K/A for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew G. Sculley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. section 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Dated: January 30, 2020

By: /s/ Andrew G. Sculley
Andrew G. Sculley
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of eMagin Corporation (the "Company") on Form 10-K/A for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey P. Lucas, President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. section 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Dated: January 30, 2020

By: /s/ Jeffrey P. Lucas

Jeffrey P. Lucas
President and Chief Financial Officer
(Principal Accounting and Financial
Officer)
