

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

EMAGIN CORP

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2017**
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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months). Yes No

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

The number of shares of common stock outstanding as of October 30, 2017 was 34,972,589.

Table of Contents

| | <u>Page</u> |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Statement Regarding Forward Looking Information | |
| PART I FINANCIAL INFORMATION | |
| Item 1 | Condensed Consolidated Financial Statements |
| | Condensed Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016 |
| | 4 |
| | Condensed Consolidated Statements of Operations for the Three Months and Nine Months ended September 30, 2017 and 2016 (unaudited) |
| | 5 |
| | Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2017 and 2016 (unaudited) |
| | 6 |
| | Notes to Condensed Consolidated Financial Statements (unaudited) |
| | 7 |
| Item 2 | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| | 17 |
| Item 3 | Quantitative and Qualitative Disclosures About Market Risk |
| | 25 |
| Item 4 | Controls and Procedures |
| | 25 |
| PART II OTHER INFORMATION | |
| Item 1 | Legal Proceedings |
| | 26 |
| Item 1A | Risk Factors |
| | 26 |
| Item 2 | Unregistered Sales of Equity Securities and Use of Proceeds |
| | 26 |
| Item 3 | Defaults Upon Senior Securities |
| | 27 |
| Item 4 | Mine Safety Disclosures |
| | 27 |
| Item 5 | Other Information |
| | 27 |
| Item 6 | Exhibits |
| | 28 |
| <u>SIGNATURES</u> | |
| CERTIFICATIONS – see Exhibits | |

STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q, or Report, contains forward-looking statements that are based on our management's belief and assumptions and on information currently available to our management. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect our results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance. You should read this Report and the documents that we reference in this Report and have filed with the Securities and Exchange Commission, or the SEC, as exhibits to this Report, completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements.

In particular, forward-looking statements in this Report include statements about:

- Our ability to successfully develop and market our products to customers;
- Our ability to generate and satisfy customer demand for our products in our target markets;
- The development of our target markets and market opportunities, including our planned entry in the consumer and commercial markets for our night vision products;
- Our potential exposure to product liability claims; our ability to manufacture suitable products at competitive cost;
- Our ability to successfully launch new equipment on our manufacturing line;
- Market pricing for our products and for competing product; the extent of increasing competition;
- Technological developments in our target markets and the development of alternate; competing technologies in them;
- Our anticipated cash needs and our estimates regarding our capital requirements; and
- Our needs for additional financing, as well as our ability to obtain such financing.

The forward-looking statements in this Report represent our views as of the date of this Report. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. Therefore, these forward-looking statements do not represent our views as of any date other than the date of this Report.

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

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

| | September 30, 2017 (unaudited) | December 31, 2016 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,964 | \$ 5,241 |
| Accounts receivable, net | 3,428 | 2,834 |
| Unbilled accounts receivable | 475 | 1,401 |
| Inventories | 9,080 | 7,435 |
| Prepaid expenses and other current assets | 1,132 | 1,040 |
| Total current assets | 16,079 | 17,951 |
| Equipment, furniture and leasehold improvements, net | 8,802 | 8,980 |
| Intangibles and other assets | 241 | 282 |
| Total assets | \$ 25,122 | \$ 27,213 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,272 | \$ 1,432 |
| Accrued compensation | 1,285 | 1,528 |
| Revolving credit facility, net | 920 | 1,689 |
| Other accrued expenses | 492 | 1,069 |
| Deferred Revenue | 988 | 445 |
| Other current liabilities | 566 | 590 |
| Total current liabilities | 5,523 | 6,753 |
| Commitments and contingencies (Note 8) | | |
| 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 September 30, 2017 and December 31, 2016 | | |
| | — | — |
| Common stock, \$.001 par value: authorized 200,000,000 shares, issued 35,134,655 shares, outstanding 34,972,589 shares as of September 30, 2017 and issued 31,788,582 shares, outstanding 31,626,516 shares as of December 31, 2016 | | |
| | 35 | 32 |
| Additional paid-in capital | 246,312 | 239,915 |
| Accumulated deficit | (226,248) | (218,987) |
| Treasury stock, 162,066 shares as of September 30, 2017 and December 31, 2016 | (500) | (500) |
| Total shareholders' equity | 19,599 | 20,460 |
| Total liabilities and shareholders' equity | \$ 25,122 | \$ 27,213 |

See notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------------------------|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | |
| Product | \$ 4,014 | \$ 3,536 | \$ 13,050 | \$ 13,612 |
| Contract | 266 | 769 | 2,559 | 2,227 |
| License | — | — | — | 1,000 |
| Total revenues, net | 4,280 | 4,305 | 15,609 | 16,839 |
| Cost of revenues: | | | | |
| Product | 3,802 | 2,545 | 10,918 | 9,639 |
| Contract | 200 | 478 | 1,346 | 1,248 |
| License | — | — | — | — |
| Total cost of revenues | 4,002 | 3,023 | 12,264 | 10,887 |
| Gross profit | 278 | 1,282 | 3,345 | 5,952 |
| Operating expenses: | | | | |
| Research and development | 1,271 | 1,666 | 3,782 | 4,468 |
| Selling, general and administrative | 1,970 | 2,041 | 6,586 | 6,044 |
| Total operating expenses | 3,241 | 3,707 | 10,368 | 10,512 |
| Loss from operations | (2,963) | (2,425) | (7,023) | (4,560) |
| Other income (expense): | | | | |
| Interest expense, net | (27) | (8) | (249) | (28) |
| Other income, net | (2) | 4 | 11 | 8 |
| Total other income (expense) | (29) | (4) | (238) | (20) |
| Loss before provision for income taxes | (2,992) | (2,429) | (7,261) | (4,580) |
| Provision for income taxes | — | (1) | — | (1) |
| Net loss | \$ (2,992) | \$ (2,430) | \$ (7,261) | \$ (4,581) |
| Loss per share, basic | \$ (0.09) | \$ (0.08) | \$ (0.22) | \$ (0.15) |
| Loss per share, diluted | \$ (0.09) | \$ (0.08) | \$ (0.22) | \$ (0.15) |
| Weighted average number of shares outstanding: | | | | |
| Basic | 34,972,589 | 30,292,166 | 33,214,262 | 29,689,458 |
| Diluted | 34,972,589 | 30,292,166 | 33,214,262 | 29,689,458 |

See notes to Condensed Consolidated Financial Statements.

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

| | Nine Months Ended | |
|------------------------------------------------------------------------------------|--------------------------|-----------------|
| | September 30, | |
| | 2017 | 2016 |
| | (unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (7,261) | \$ (4,581) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,588 | 1,214 |
| Increase (reduction) in inventory reserve | 50 | (159) |
| Stock-based compensation | 520 | 658 |
| Loss on sale of asset | — | 1 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (594) | 1,032 |
| Unbilled accounts receivable | 926 | 281 |
| Inventories | (1,695) | (2,967) |
| Prepaid expenses and other current assets | (92) | (488) |
| Deferred Revenues | 543 | (51) |
| Accounts payable, accrued expenses, and other current liabilities | (895) | (669) |
| Net cash used in operating activities | (6,910) | (5,729) |
| Cash flows from investing activities: | | |
| Purchase of equipment | (1,157) | (997) |
| Net cash used in investing activities | (1,157) | (997) |
| Cash flows from financing activities: | | |
| Proceeds from warrant exercise, net | — | 4,294 |
| Repayments under revolving line of credit, net | (932) | — |
| Proceeds from public offering, net | 5,811 | — |
| Payment of debt issuance costs | (158) | — |
| Proceeds from exercise of stock options | 69 | 38 |
| Net cash provided by financing activities | 4,790 | 4,332 |
| Net decrease in cash and cash equivalents | (3,277) | (2,394) |
| Cash and cash equivalents, beginning of period | 5,241 | 9,273 |
| Cash and cash equivalents, end of period | \$ 1,964 | \$ 6,879 |
| Cash paid for interest | \$ 65 | \$ 22 |
| Cash paid for income taxes | \$ — | \$ 1 |

See notes to Condensed Consolidated Financial Statements.

Note 1: Summary of Significant Accounting Policies

The Business

eMagin Corporation (the "Company") designs, develops, manufactures, and markets OLED (organic light emitting diode)-on-silicon microdisplays and virtual imaging products which utilize OLED microdisplays. The Company's products are sold mainly in North America, Asia, and Europe.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of eMagin Corporation and its subsidiary reflect all adjustments, including normal recurring accruals, necessary for a fair presentation. All significant intercompany balances and transactions have been eliminated in consolidation. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the Securities and Exchange Commission. The Company believes that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited condensed consolidated financial statements are read in conjunction with the audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for the period ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year. The consolidated condensed financial statements as of December 31, 2016 are derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Evaluation of Ability to Maintain Current Level of Operations

As of September 30, 2017, the Company has an accumulated deficit of \$226.2 million. The Company incurred a net loss of \$7.3 million and used cash in operating and investing activities of \$8.1 million during the first nine months of 2017. In addition, at September 30, 2017, the Company had cash and cash equivalents of \$2.0 million, \$0.9 million in outstanding borrowings under its asset based lending ("ABL") debt facility, and borrowing availability under the facility of \$3.7 million.

Management evaluated whether the conditions above raised substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue current operations is dependent on its existing cash and working capital balances and the ability to generate sufficient cash flows from operations. The Company expects that it may need additional capital to fund its operations over the next twelve months from the date of issuance of these financial statements. If the Company is unable to raise additional capital or obtain debt when required or on acceptable terms, the Company may have to reduce or delay operating expenses as deemed appropriate in order to conserve cash.

In March 2017, the Company entered into an unsecured debt financing arrangement with Stillwater Trust LLC, a significant investor in the Company. Under the financing agreement, the Company may borrow through June 30, 2018, up to \$2 million for general working capital purposes and up to an additional \$3 million should the Company's existing lender not provide borrowing availability under its normal terms and conditions through its ABL debt facility. In accordance with the terms of the unsecured debt financing agreement, this arrangement expired on May 24, 2017, upon the completion of an equity offering.

On May 24, 2017, the Company completed an underwritten offering of 3,300,000 shares of its common stock 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.

Management believes its current operating plan, current working capital levels including proceeds from its May public offering, current financial projections, and the ability to borrow under its ABL debt facility, has alleviated substantial doubt about its ability to continue as a going concern. Accordingly, these consolidated financial statements have been prepared on the basis that the Company will continue to meet its obligations and continue its operations for the next twelve months from the date of issuance of these financial statements.

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.

Reclassifications

Certain immaterial prior period amounts have been reclassified to conform to current period presentation with no impact on previously reported net income, assets or shareholders' equity.

Revenues and Cost Recognition

Revenues from product sales are recognized when persuasive evidence of an arrangement exists, such as when a purchase order or contract is received from the customer, the price is fixed, title and risk of loss to the goods has changed and there is a reasonable assurance of collection of the sales proceeds. We obtain written purchase authorizations from our customers for a specified amount of product at a specified price and consider delivery to have occurred at the time of shipment. Product revenue is generally recognized when products are shipped to customers.

Revenues from research and development activities relating to firm fixed-price contracts and cost-type contracts are generally recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Progress is generally based on a cost-to-cost approach; however, an alternative method may be used such as physical progress, labor hours or others depending on the type of contract. Physical progress is determined as a combination of input and output measures as deemed appropriate by the circumstances. 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.

Revenues from sales or licenses of intellectual property are recognized when transferred to the customer, provided the license has stand-alone value and the contract provides the right to use the intellectual property as it exists at the point the license is granted, without further obligations of the Company to update the intellectual property after the license is transferred. If the license does not have standalone value, then the license is combined with other deliverables, such as Research and Development ("R&D") or manufacturing services into a single unit of account. Revenue from the single unit of account is recognized when earned, typically as the R&D or manufacturing services are performed over the life of the contract.

Recently issued accounting pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued guidance that narrows the application of when an integrated set of assets and activities is considered a business and provides a framework to assist entities in evaluating whether both an input and a substantive process are present to be considered a business. It is expected that the new guidance will reduce the number of transactions that would need to be further evaluated and accounted for as a business. The guidance is required to be applied by the Company in the first quarter of 2018, although early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued guidance which simplifies the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, financial statement presentation of excess tax benefits or deficiencies, and classification in the Consolidated Statement of Cash Flows. The guidance is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The Company elected to early adopt this guidance on a prospective basis as of December 31, 2016. The adoption of the new accounting guidance did not have a material impact on the company's financial statements.

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 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). 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 an asset and a corresponding liability at the present value of the total lease payments. The asset will be decremented over the life of the lease on a pro-rata basis resulting in lease expense while the liability will be decremented using the interest method (i.e. principal and interest). As such, the Company expects the new guidance will impact the asset and liability balances of the Company's financial statements and related disclosures at the time of adoption. The new guidance is effective January 1, 2019.

In November 2015, the FASB issued guidance which requires deferred tax liabilities and assets be classified as noncurrent in the statement of financial position. This guidance requires entities with a classified balance sheet to present all deferred tax assets and liabilities as non-current. The guidance is effective for annual and interim periods beginning after December 15, 2016 and can be applied prospectively or retrospectively to adjustments with early adoption permitted at the beginning of an interim or annual reporting period. The adoption of the new accounting guidance did not have a material impact on the Company's financial statements.

In July 2015, the FASB issued guidance on the measurement of inventory, which requires that inventory be measured at the lower of cost or net realizable value. The updated standard was adopted prospectively and is effective for annual reporting periods (including interim periods therein) beginning after December 15, 2016 with early adoption permitted. The adoption of the new accounting guidance did not have a material impact on the Company's financial statements.

In April 2015, the FASB issued guidance that simplifies the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted this guidance in the first quarter of 2016 and has presented its revolving credit facility debt net of unamortized debt issuance costs in the accompanying consolidated balance sheet.

In August 2014, the FASB issued guidance which defines management's responsibility to assess an entity's ability to continue as a going concern; and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement was effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The Company has provided an assessment and related disclosures in Note 1 to the Condensed Consolidated Financial Statements.

In May 2014, the FASB issued guidance on the recognition of revenue from contracts with customers, which will require an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance when it becomes effective. The guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2017. The Company is still finalizing its assessment of this guidance, but does not currently expect its adoption to have a material impact on its consolidated financial statements. Based on the evaluation of its product, contract and licensing revenue streams, most will be recorded consistently under both the current and new guidance with differences possible in the accounting for product warranties which are not expected to be material. The Company has determined it will use the modified retrospective method as its transition method in the adoption of the new revenue guidance. The Company will continue to accumulate information that will be necessary for implementation and will identify and implement any changes in its processes, systems and controls necessary to meet the new standards enhanced reporting and disclosure requirements. The Company will continue its evaluation of this new guidance through the date of adoption.

Unbilled Accounts Receivable

Unbilled accounts receivable represents contract revenue recognized but not yet invoiced due to contract terms or the timing of the accounting invoicing cycle.

Intangible Assets – Patents

Acquired patents 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.

The total intangible amortization expense was approximately \$14 thousand and \$41 thousand for the three and nine month periods ended September 30, 2017 and 2016, respectively. Estimated future amortization expense as of September 30, 2017 is as follows (in thousands):

| Fiscal Years Ending December 31, | Total Amortization |
|-----------------------------------------|-------------------------------|
| | (unaudited) |
| 2017 (three months remaining) | \$ 13 |
| 2018 | 54 |
| 2019 | 32 |
| 2020 | 9 |
| 2021 | 8 |
| Later years | 32 |
| | \$ 148 |

Product warranty

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

| | Three Months Ended | | Nine Months Ended | |
|-------------------|---------------------------|---------------|--------------------------|---------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (unaudited) | | (unaudited) | |
| Beginning balance | \$ 589 | \$ 540 | \$ 584 | \$ 599 |
| Warranty accruals | (17) | (105) | 118 | 3 |
| Warranty claims | (8) | (23) | (138) | (190) |
| Ending balance | \$ 564 | \$ 412 | \$ 564 | \$ 412 |

Net Loss per Common Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period, and excludes any dilutive effects of common stock equivalent shares such as stock options, warrants, and convertible preferred stock. Diluted loss per share is computed using the weighted average number of common shares outstanding and potentially dilutive common stock equivalent shares outstanding during the period. Common stock equivalent shares are excluded from the computation if their effect is anti-dilutive.

The Company's Series B Convertible Preferred stock ("Preferred Stock – Series B") is considered a participating security as the preferred stock participates in dividends with the common stock, which requires the use of the two-class method when computing basic and diluted earnings per share. The Preferred Stock – Series B is not required to absorb any net loss. Although the Company paid a one-time special dividend in 2012, the Company does not expect to pay dividends on its common or preferred stock in the near future.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share and share data) for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------------------|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (unaudited) | | (unaudited) | |
| Net loss | \$ (2,992) | \$ (2,430) | \$ (7,261) | \$ (4,581) |
| Income allocated to participating securities | — | — | — | — |
| Loss allocated to common shares | \$ (2,992) | \$ (2,430) | \$ (7,261) | \$ (4,581) |
| Weighted average common shares outstanding | | | | |
| - Basic | 34,972,589 | 30,292,166 | 33,214,262 | 29,689,458 |
| Dilutive effect of stock options | — | — | — | — |
| Weighted average common shares outstanding | | | | |
| - Diluted | 34,972,589 | 30,292,166 | 33,214,262 | 29,689,458 |
| Net loss per share: | | | | |
| Basic | \$ (0.09) | \$ (0.08) | \$ (0.22) | \$ (0.15) |
| Diluted | \$ (0.09) | \$ (0.08) | \$ (0.22) | \$ (0.15) |

The following table sets forth the potentially dilutive common stock equivalents for the three and nine month periods ended September, 2017 and 2016 that were not included in diluted EPS as their effect would be anti-dilutive:

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------------------------|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (unaudited) | | (unaudited) | |
| Options | 5,142,448 | 5,010,993 | 5,142,448 | 5,010,993 |
| Warrants | 5,081,449 | 3,331,449 | 5,081,449 | 3,331,449 |
| Convertible preferred stock | 7,545,333 | 7,545,333 | 7,545,333 | 7,545,333 |
| Total potentially dilutive common stock equivalents | 17,769,230 | 15,887,775 | 17,769,230 | 15,887,775 |

Note 2: Accounts Receivable, net

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 consisted of the following (in thousands):

| | September 30, 2017 | December 31, 2016 |
|--------------------------------------|-----------------------|----------------------|
| | (unaudited) | |
| Accounts receivable | \$ 3,555 | \$ 2,961 |
| Less allowance for doubtful accounts | (127) | (127) |
| Accounts receivable, net | \$ 3,428 | \$ 2,834 |

Note 3: Inventories, net

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

| | September 30, 2017 | December 31, 2016 |
|------------------------|-------------------------------|------------------------------|
| | (unaudited) | |
| Raw materials | \$ 4,153 | \$ 3,619 |
| Work in process | 1,646 | 1,576 |
| Finished goods | 4,832 | 3,740 |
| Total inventories | 10,631 | 8,935 |
| Less inventory reserve | (1,551) | (1,500) |
| Total inventories, net | <u>\$ 9,080</u> | <u>\$ 7,435</u> |

Note 4: Line of Credit

On December 21, 2016, the Company entered into a revolving credit 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 "ABL facility"). 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 is also obligated to 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. 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 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 September 30, 2017, we had unused borrowing availability of \$3.7 million and were in compliance with all debt covenants.

For the three and nine months ended September 30, 2017, interest expense includes interest paid, capitalized or accrued of \$27 thousand and \$249 thousand, respectively, on outstanding debt. Interest expense for the nine months ended September 30, 2017, also includes the write off of \$158 of capitalized debt issuance costs associated with the expiration of the unsecured debt financing agreement.

On March 24, 2017, the Company entered into an unsecured debt financing arrangement with Stillwater Trust LLC, an investor who, with affiliates, collectively control approximately 46% of the Company's outstanding common stock. Under the financing agreement, the Company may borrow, through June 30, 2018, up to \$2 million for general working capital purposes and up to an additional \$3 million should the Company's lender not provide borrowing availability under its normal terms and conditions through its ABL facility. The agreement expires and borrowings become due upon the earlier of June 30, 2020; the completion of one or a series of equity financings which raise collectively \$5 million or greater of gross proceeds; or an event of default, as defined in the agreement. Amounts borrowed under the financing agreement, once repaid, cannot be reborrowed. 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.

Mr. Christopher Brody, a member of the Company's board of directors, is also the President and Managing Director of Stillwater Holdings LLC and is the Vice President of Stillwater Trust LLC, which is the Company's largest stockholder. The decision of Stillwater Trust LLC to enter into the financing arrangement was made independently of Mr. Brody and the financing was not required or suggested by Mr. Brody. The terms of the financing were determined solely by negotiation among the Company and Stillwater Trust LLC. Mr. Brody did not participate in the deliberations of the Company's board of directors or the special committee of the Company's board formed to review the terms of the financing with respect to the approval of the financing and abstained from voting thereon.

Note 5: 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 our expense categories for the three and nine month periods ended September 30, 2017 and 2016 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|---------------------------|---------------|--------------------------|---------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (unaudited) | | (unaudited) | |
| Cost of revenues | \$ 6 | \$ 10 | \$ 18 | \$ 20 |
| Research and development | 25 | 108 | 74 | 141 |
| Selling, general and administrative | 159 | 280 | 428 | 497 |
| Total stock compensation expense | <u>\$ 190</u> | <u>\$ 398</u> | <u>\$ 520</u> | <u>\$ 658</u> |

At September 30, 2017, total unrecognized compensation costs related to stock options was approximately \$0.7 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 3 years.

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

| | Nine Months Ended | |
|--------------------------|--------------------------|----------------|
| | September 30, | |
| | 2017 | 2016 |
| | (unaudited) | |
| Dividend yield | 0 % | 0 % |
| Risk free interest rates | 0.71-1.65 % | 0.71-1.01 % |
| Expected volatility | 45.3 to 59.4 % | 51.3 to 53.5 % |
| Expected term (in years) | 3.5 to 5.0 | 3.5 to 5.0 |

The Company does not expect to pay dividends in the near future . Therefore, the Company used an expected dividend yield of 0%. The risk-free interest rate used in the Black-Scholes option pricing model is based on yield available at dates of option grant, 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 the 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.

A summary of the Company's stock option activity for the nine months ended September 30, 2017 is presented in the following table (unaudited):

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (In Years) | Aggregate Intrinsic Value |
|--------------------------------------------------|---------------------|------------------------------------------|--------------------------------------------------------------------|---------------------------------|
| Outstanding at December 31, 2016 | 5,055,741 | \$ 3.00 | | |
| Options granted (1) | 498,803 | 2.25 | | |
| Options exercised | (46,073) | 1.52 | | |
| Options forfeited | (50,001) | 2.05 | | |
| Options cancelled or expired | (316,022) | 2.83 | | |
| Outstanding at September 30, 2017 | 5,142,448 | \$ 2.96 | 3.76 | \$ 986,578 |
| Vested or expected to vest at September 30, 2017 | 5,125,749 | \$ 2.96 | 3.75 | \$ 950,550 |
| Exercisable at September 30, 2017 | 4,307,532 | \$ 3.03 | 3.45 | \$ 969,126 |

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

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. For the nine months ended September 30, 2017 the aggregate intrinsic value of options exercised was \$35 thousand. The Company issues new shares of common stock upon exercise of stock options.

Note 6: Shareholders' Equity

Preferred Stock - Series B Convertible Preferred Stock

As of September 30, 2017 and December 31, 2016, there were 5,659 shares of Preferred Stock – Series B issued and outstanding.

Common Stock

During the nine-month period ended September 30, 2017, options to purchase 46,073 shares were exercised for proceeds of \$69 thousand.

Underwritten Public Offering

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 \$5.8 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 of the Company. The Warrants have an exercise price of \$2.45 per common share and a term of five years.

Warrants

On August 18, 2016, the Company entered into letter agreements with certain warrant holders pursuant to which such warrant holders agreed to exercise warrants to purchase a total of 2,216,500 of the Company's common stock, at an exercise price of \$2.05 per share, which they acquired in December 2015.

On August 24, 2016, in consideration for the exercise of the 2,216,500 warrant shares, the Company issued new common stock purchase warrants (the "New Warrants") to purchase 2,947,949 shares of the Company's 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 substantially similar to the warrants issued in December 2015, except that they are: (a) restricted; (b) not exercisable for six months from the date of issuance; and (c) have a term of five and a half years from the issuance date.

The Company raised approximately \$4.5 million in gross proceeds from the transaction, which was used for general corporate purposes.

The issuance of the New Warrants was exempt from federal and state registration requirements. The Company has filed a resale registration statement to register the shares of the Company's common Stock issuable upon the exercise of the New Warrants.

At September 30, 2017 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 September 30, 2017 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 4: Line of Credit, all of which remain outstanding as of September 30, 2017.

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 September 30, 2017.

Note 7: Income Taxes

The Company's effective tax rate is calculated quarterly based upon current assumptions relating to the full year's estimated operating results and various tax-related items. The Company's effective tax rate for the three and nine month periods ended September 30, 2017 and 2016 was 0%. The difference between the effective tax rate of 0% and the U.S. federal statutory rate of 34% for the three and nine month periods ended September 30, 2017 and 2016 was primarily due to recognizing a full valuation allowance on deferred tax assets.

As of September 30, 2017, the Company determined that based on all available evidence, both positive and negative, including the Company's latest forecasts and cumulative losses in recent years, it was more likely than not that none of its deferred tax assets would be realized and therefore it continued to record a full valuation allowance.

The Company's net operating loss carry forward amounts expire through 2037 and are subject to certain limitations that may occur due to change in ownership provisions under Section 382 of the Internal Revenue Code and similar state provisions.

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.

Note 8: Commitments and Contingencies

Equipment Purchase Commitments

The Company has committed to equipment purchases of approximately \$0.2 million at September 30, 2017.

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 October 2017, the parties reached a tentative settlement, subject to payment of an amount not material to the Company, documentation of the terms and the expiration of a revocation period.

Note 9: Concentrations

The following is a schedule of revenues by geographic location (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------|---------------------------|-----------------|--------------------------|------------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (unaudited) | | (unaudited) | |
| North and South America | \$ 2,192 | \$ 2,849 | \$ 9,479 | \$ 10,022 |
| Europe, Middle East, and Africa | 1,634 | 1,301 | 4,378 | 5,637 |
| Asia Pacific | 454 | 155 | 1,752 | 1,180 |
| Total | <u>\$ 4,280</u> | <u>\$ 4,305</u> | <u>\$ 15,609</u> | <u>\$ 16,839</u> |

The following table represents the domestic and international revenues as a percentage of total net revenues :

| | Three Months Ended | | Nine Months Ended | |
|---------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (unaudited) | | (unaudited) | |
| Domestic | 51 % | 66 % | 61 % | 60 % |
| International | 49 % | 34 % | 39 % | 40 % |

The Company purchases principally all of its silicon wafers from two suppliers located in Taiwan and Korea.

For the nine months ended September 30, 2017, one customer accounted for 10% of net revenues and there were no other single customers accounting for over 10% of net revenues. For the three months ended September 30, 2017, one customer accounted for over 10% of net revenues. As of September 30, 2017, two customers accounted for 15 % 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.

Business

eMagin Corporation is headquartered in Hopewell Junction, New York, and was incorporated in the state of Delaware in 1996. We are the leader in OLED (organic light emitting diode) on silicon microdisplay technology, OLED microdisplay manufacturing know-how and mobile display systems. eMagin manufactures high-resolution OLED microdisplays and integrates them with magnifying optics to deliver virtual images comparable to large-screen computer and television displays in portable, low-power, lightweight personal displays. eMagin microdisplays provide near-eye imagery in a variety of products for military, industrial, medical and consumer OEMs.

We derive the majority of our revenue from sales of our OLED microdisplay products which we manufacture in our Hopewell Junction, New York, manufacturing facility. We also earn revenue from government and commercial development contracts that may complement and support our internal research and development programs. In addition, we generate sales from optics and microdisplays combined with optics. Our business model also includes licensing our intellectual property to consumer electronics companies for a broad range of applications, although revenues to date have not been material.

Our common stock is traded on the NYSE:American Market under the symbol EMAN.

Overview

In the third quarter, we delivered display products to over 64 customers in 26 countries and performed contract services for 7 customers. Revenues and gross profit in the quarter were affected by production problems associated with one machine that resulted in fewer displays being produced and sold during the quarter and higher unit material costs. Those production issues have since been resolved. We continue to anticipate a ramp up over the next several quarters from the addition of new military programs awarded over the past year and from shipments not made during the third quarter. As a result of higher bookings towards the end of the third quarter and continuing into the fourth quarter, we believe we will experience greater shipments and higher revenues in the fourth quarter of 2017 than in the quarter ended September 30, 2017.

We continue to make progress on our multi-year yield improvement initiative as we strengthen production resources, make key managerial and process engineering hires, and implement production equipment. We believe this initiative will enable us to increase production capacity, lower unit costs and achieve greater operating efficiencies, positioning us to meet expanding customer demand and earning higher gross profits. As part of our yield improvement initiative, we made capital equipment acquisitions over the past several quarters which we are currently implementing and qualifying. We expect that these additions will reduce our dependency on critical equipment at key stages of the production process and provide greater operating flexibility which we believe will permit us to address the increasingly demanding needs of our customers without compromising throughput volumes or unit profitability.

Throughout 2017, we expanded the marketing and commercialization of our handheld and wearable night vision products beyond the direct-to-consumer market to include commercial markets such as first responders and field service. We believe that these commercial marketing efforts, along with our consumer marketing initiatives, will lead to a larger customer base for our products. During the first nine months of 2017 we incurred expenses associated with the marketing of these products and utilized working capital to fund the buildup of inventory. Working capital expenditures, along with marketing and promotional expenditures, are expected to continue during the fourth quarter, although at a lower level than in earlier quarters, as we continue to assess the sales potential of these markets.

New Business

During the third quarter of 2017 we made significant progress in our negotiations with multiple major consumer electronics companies to enter into strategic partnerships to develop displays for these companies' next generation VR/AR applications. We are pursuing what we believe to be the best paths to commercializing our Direct Patterning technology and establishing ourselves as the industry leader in microdisplays for the consumer market.

Our overarching goal is to secure partnerships with industry leaders in consumer electronics who can help us capitalize on our technology to meet the needs of end users from a cost and performance standpoint. Our partnership initiatives encompass scaling our product technology, entering into mass production agreements with manufacturing companies which possess capital resources and high volume production capability to enable us to manufacture in the volumes required for the consumer market, and securing sales and distribution channels to end users.

In concert with these efforts, we achieved the following:

- Continued the ongoing second quarter work with a major consumer electronics company to design and develop a microdisplay for a VR headset application. This program is expected to span twelve to fifteen months and include the production of a limited quantity of sample displays.
- Advanced our negotiations with multiple major consumer electronics companies on new display designs and development of R&D and low rate production capabilities for VR/AR products. As a result of our efforts, early in the fourth quarter we signed a commercialization agreement with another major consumer electronics company.
- Made significant progress in our discussions with multiple mass production partners in parallel with our consumer partner efforts. We believe that the interest in our technology by consumer electronics companies, including the agreements signed to date, has heightened interest by the prospective manufacturing partners in our Direct Patterning technology and to work with us in scaling this technology.

During the quarter, we began to experience an improvement in booking activity as we made progress towards our goals of securing new, and expanding existing U.S. and foreign military programs while expanding our presence in foreign military, commercial and industrial markets. We expect these efforts to result in greater bookings during the second half of 2017 as a whole than were achieved during the first half of 2017. In the third quarter we booked over 90 new orders totaling more than \$6.5 million. Thirty of these orders were for new projects with existing and new customers and over 60 were follow-on/repeat orders with existing customers. Among the orders received were:

- A \$660,000 order for a new foreign military thermal weapons sight with deliveries expected to commence in the fourth quarter and be completed by the third quarter 2018.
- A \$1.7 million multi-year order for a display to be used in a see through augmented reality HMD to support airborne and ground mission requirements.
- Funding to design and develop support hardware which we believe will be integral to new system designs utilizing our 2K x 2K microdisplays, with the hardware anticipated to be available to defense and commercial integrators in mid-2018.

In addition, during the quarter we received confirmation from two defense prime contractors that we will be awarded contracts in the fourth quarter totaling over \$5.2 million. These anticipated orders comprise:

- A follow-on contract worth over \$3.7 million to continue manufacturing an integrated night vision and thermal targeting system in support of the Army's Enhanced Night Vision Goggle III (ENVGIII) and Family of Weapons Sight-Individual (FWS-I) programs with delivery expected over twelve months.
- A new contract for \$1.5 million to support a Foreign Military Sales (FMS) Light Weight Thermal Sight (LWTS) program with deliveries expected to begin in December 2017 and continuing through 2018.

Also during the third quarter, we increased our presence in the aviation market with accelerated activity in several key programs. The aviation market, while representing minimal revenues in previous years, is expected to become a major source of revenues for the Company.

During the quarter we:

- Completed the Preliminary Design Review (PDR) with a major aviation prime contractor for an OLED upgrade to a fixed wing production helmet. This initiative is expected to replace LCD displays currently built into these helmets with our OLED displays and eliminate the "green glow" effect. The Critical Design Review (CDR) was completed in October 2017.
- Continued to support a major US Army helicopter helmet upgrade program to retrofit high brightness microdisplays into the current fielded helmet. The CDR was completed in August with additional OLED display, taper, and lens assemblies scheduled to be delivered for integration and testing in December 2017.

- Delivered high brightness 2K x 2K microdisplays to a major foreign contractor for use in a prototype aviation helmet.
- Received a production order from a foreign aviation prime contractor to supply high brightness microdisplays to upgrade an existing fixed wing helmet. We expect that this will be a multi-year program with the initial order to deliver displays continuing through the fourth quarter 2018.

In addition, our development work under the Office of the Secretary of Defense-sponsored Mantech program progressed during the third quarter. We continue to meet the milestones under this program and expect the project to be substantially completed by year-end 2017. We believe these efforts will accelerate prototype development in subsequent quarters and enhance the warfighting effectiveness of ground, dismounted and aviation systems.

New Technology Development

We are continuing to make progress in our development of very high brightness full-color microdisplays incorporating our proprietary Direct Patterning technology. Our latest efforts to improve device performance by modifying the device's architecture and the materials used resulted in a reduction in power consumption by about 20%. We have also begun to make progress to extend the functional lifetimes of the displays while continuing to increase the brightness beyond 5,000 nits.

We believe enhancements to the manufacturing processes for the displays are beginning to improve production yields with the initial goal of raising yields by over 50% from the current level. Equipment which is expected to simplify several process steps to improve yields and reduce cycle time was ordered in the third quarter. Delivery is expected in November 2017 with qualification and implementation anticipated to be completed by second quarter 2018.

In the meantime, we are continuing to ship limited quantities of engineering samples to customers who are exploring applications that can utilize these displays and incorporate them into their existing and planned product lines to achieve superior performance.

To the best of our knowledge, our 2K x 2K displays demonstrate the highest brightness and smallest pixel pitch in the global market today. We have designed these displays to incorporate the attributes that we believe consumer electronics companies seek for their next generation products including variable persistence and global addressing. We believe the continued development and demonstration of the advantages of our Direct Patterning technology is integral to driving our growth in the consumer AR/VR markets with consumer electronics companies and to accelerating our discussions with mass production partners.

New Product Development

During the third quarter, we continued to develop both small pixel and large area microdisplay architectures for wearable consumer applications. These efforts are being driven by consumer electronics companies and are aimed at leveraging our Direct Patterning technology for cost effective, large volume production systems.

Qualification of our 2K x 2K microdisplay is progressing as planned with expected completion in the first quarter 2018. In concert with this effort, we are developing a compact interface for the 2K x 2K microdisplay that will facilitate the integration of the display into optical solutions. This hardware is targeted to be completed and introduced to the market during the second quarter 2018.

Employees

At September 30, 2017 we had a total of 98 employees, of whom 95 were full-time employees, as compared to a total of 97 employees, of whom 93 were full-time employees, at December 31, 2016.

A detailed discussion of our business and operations may be found in Part I, "Business," of our 2016 Annual Report on Form 10-K for the year ended December 31, 2016, and as filed with the Securities and Exchange Commission on March 28, 2017.

CRITICAL ACCOUNTING POLICIES

Revenue and Cost Recognition

Revenue on product sales is recognized when persuasive evidence of an arrangement exists, such as when a purchase order or contract is received from the customer, the price is fixed or determinable, title and risk of loss to the goods has transferred and there is a reasonable assurance of collection of the sales proceeds. We obtain written purchase authorizations from our customers for a specified amount of product at a specified price and consider delivery to have occurred at the time of shipment.

Revenues from research and development activities relating to firm fixed-price contracts and cost-type contracts are generally recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Progress is generally based on a cost-to-cost approach however an alternative method may be used such as physical progress, labor hours or others depending on the type of contract. Physical progress is determined as a combination of input and output measures as deemed appropriate by the circumstances. 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.

Revenues from sales or licenses of intellectual property is recognized when transferred to the customer, provided the license has stand-alone value and the contract provides the right to use the intellectual property as it exists at the point the license is granted, without further obligations by the Company to update the intellectual property after the license is transferred. If the license does not have standalone value, then the license is combined with other deliverables, such as R&D or manufacturing services into a single unit of account. Revenue from the single unit of account is recognized when earned, typically as the R&D or manufacturing services are performed over the life of the contract.

Income Taxes

We evaluate our deferred tax assets and their potential realizability each quarter to determine if we should make any changes to the valuation allowance. As of September 30, 2017, we determined that based on all available evidence, both positive and negative, including the Company's latest forecasts and cumulative losses in recent years, it was more likely than not that none of our deferred tax assets would be realized and therefore, we continued to record a full valuation allowance.

Other critical accounting policies, as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, relate to product warranty, use of estimates, fair value of financial instruments and stock-based compensation, and additional information on accounting for income taxes.

RESULTS OF OPERATIONS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 COMPARED TO THREE AND NINE MONTHS ENDED, SEPTEMBER 30, 2016

Revenues

| | Three Months Ended | | | Nine Months Ended | | |
|---------------------------|---------------------------|-----------------|----------------|--------------------------|------------------|-------------------|
| | September 30, | | | September 30, | | |
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| | (in thousands) | | | (in thousands) | | |
| Product | \$ 4,014 | \$ 3,536 | \$ 478 | \$ 13,050 | \$ 13,612 | \$ (562) |
| Contract | \$ 266 | \$ 769 | \$ (503) | \$ 2,559 | \$ 2,227 | \$ 332 |
| License | \$ — | \$ — | \$ — | \$ — | \$ 1,000 | \$ (1,000) |
| Total revenue, net | \$ 4,280 | \$ 4,305 | \$ (25) | \$ 15,609 | \$ 16,839 | \$ (1,230) |

Revenues for the three and nine months ended September 30, 2017 were \$4.3 million and \$15.6 million respectively, as compared to \$4.3 million and \$16.8 million, respectively, for the three and nine months ended September 30, 2016.

Product revenue is comprised primarily of sales of displays, as well as sales of other hardware. For the three and nine months ended September 30, 2017, product revenue increased by \$0.5 million and decreased by \$0.6 million, respectively, as compared to the three and nine months ended September 30, 2016. The increase in display revenues in the third quarter of 2017 was primarily due to increased demand by international customers. The decreased revenue in the year to date period was primarily due to lower demand from maturing military programs, and a larger proportion of sales of displays with lower average unit prices. The 2017 product revenue in the nine months' period was favorably impacted by sale d of \$0.3 million of newly developed Direct Patterned displays supported by R&D efforts.

Contract revenue is comprised of revenue from research and development ("R&D"), commercial contracts, or non-recurring engineering ("NRE") contracts. For the three and nine months ended September 30, 2017, contract revenue decreased by \$0.5 million and increased by \$0.3 million, respectively, as compared to the three and nine months ended September 30, 2016, primarily due to the addition of commercial contracts with several major consumer electronics companies earlier in 2017.

License revenue for the nine months ended September 30, 2016 was derived from a \$1.0 million non-exclusive intellectual property license for our virtual reality headset technology. We produced engineering samples of our 2K x 2K pixel full-color displays in the fourth quarter of 2016 and expect that the licensee will use our 2K x 2K pixel full-color displays in their headsets up on their successful development.

Cost of Revenues

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------------------------|-------------------------------------|-----------------|---------------|------------------------------------|------------------|-----------------|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| | (in thousands) | | | (in thousands) | | |
| Product | \$ 3,802 | \$ 2,545 | \$ 1,257 | \$ 10,918 | \$ 9,639 | \$ 1,279 |
| Contract | \$ 200 | \$ 478 | \$ (278) | \$ 1,346 | \$ 1,248 | \$ 98 |
| License | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Total cost of revenues | \$ 4,002 | \$ 3,023 | \$ 979 | \$ 12,264 | \$ 10,887 | \$ 1,377 |

Total cost of revenues is comprised of costs of product 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 of deliverables under contracts. Total cost of revenues for the three and nine months ended September 30, 2017 increased by \$1.0 million and \$1.4 million, respectively, as compared to three and nine months ended September 30, 2016. Total cost of revenues as a percentage of revenues was 94% and 79%, respectively, for the three and nine month periods ended September 30, 2017, respectively as compared to 70% and 65% for the three and nine month periods ended September 30, 2016. Revenues for the nine months ended September 30, 2016 included \$1.0 million of license revenue that had no associated cost of revenues.

The following table outlines product, contract and license total gross profit and related gross margins for the three and nine month periods ended September 30, 2017 and 2016 (dollars in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (\$ in thousands) | | (\$ in thousands) | |
| Product revenues gross profit | \$ 212 | \$ 991 | \$ 2,132 | \$ 3,973 |
| Product revenues gross margin | 5 % | 28 % | 16 % | 29 % |
| Contract revenues gross profit | \$ 66 | \$ 291 | \$ 1,213 | \$ 979 |
| Contract revenues gross margin | 25 % | 38 % | 47 % | 44 % |
| License revenues gross profit | \$ — | \$ — | — | 1,000 |
| License revenues gross margin | — % | — % | — % | 6 % |
| Total gross profit | \$ 278 | \$ 1,282 | \$ 3,345 | \$ 5,952 |
| Total gross margin | 7 % | 30 % | 21 % | 35 % |

Total gross profit is a function of revenues less cost of revenues. The total gross profit for the three and nine months ended September 30, 2017 decreased \$1.0 million and \$2.6 million, respectively, as compared to the three and nine months ended September 30, 2016 primarily reflecting a decrease in product revenue gross profit in the three and nine month periods. The total gross margin of 7% for the three months ended September 30, 2017 decreased from gross margin of 30% in the prior year period, primarily due to decreases in product revenues gross margin. The gross margin of 21% for the nine months ended September 30, 2017 as compared to 35% for the prior year period primarily reflects the favorable impact of the \$1.0 million of license revenue in the first quarter of 2016 that had no associated costs of goods sold.

The product gross profit and gross margins for the three months ended September 30, 2017 decreased compared to the prior year period, lower average selling prices in the 2017 period and higher product costs in the 2017 period related to yield losses and lower production volumes. The product gross profit for the nine months ended September 30, 2017, decreased \$1.8 million as compared to the prior year period. Product gross margins of 16% for the nine months ended September 30, 2017 decreased from 29% in the prior year period due to lower average selling prices for certain product types in the current period and the favorable impacts of higher production volume in the first nine months of 2016.

For the three months ended September 30, 2017, contract revenue gross profit was \$0.1 million compared to \$0.3 million for three months ended September 30, 2016. Contract revenue gross profit of \$1.2 million and gross margin of 47% for the nine months ended September 30, 2017 increased from \$1.0 million and 44% in the comparable prior year periods. Increased contract revenue gross profit in the first nine months of 2017 was due to a higher proportion of commercial contract work performed in the current period and to changes in the nature of both the individual contracts and the work completed during each period.

Operating Expenses

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------------|-------------------------------------|----------|----------|------------------------------------|-----------|----------|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| | (\$ in thousands) | | | (\$ in thousands) | | |
| Research and development expense | \$ 1,271 | \$ 1,666 | \$ (395) | \$ 3,782 | \$ 4,468 | \$ (686) |
| Percentage of net revenue | 30 % | 39 % | | 24 % | 27 % | |
| Selling, general and administrative expense | \$ 1,970 | \$ 2,041 | \$ (71) | \$ 6,586 | \$ 6,044 | \$ 542 |
| Percentage of net revenue | 46 % | 47 % | | 42 % | 36 % | |
| Total operating expenses | \$ 3,241 | \$ 3,707 | \$ (466) | \$ 10,368 | \$ 10,512 | \$ (144) |
| Percentage of net revenue | 76 % | 86 % | | 66 % | 62 % | |

Research and Development ("R&D"). R&D expenses are company-funded and include salaries and related benefits, development materials and other costs specifically allocated to the development of new technologies and microdisplay products, OLED materials and subsystems. R&D related costs associated with fulfilling contracts are categorized as contract cost of revenues. R&D expenses decreased on a percentage basis for the three months and nine months ended September 30, 2017, respectively compared the prior year periods. R&D costs in the current year reflected a decrease in consumer product R&D partially offset by the work performed on the Company's Direct Patterning technology including product development and process development associated with the manufacture of the Direct Patterned displays.

Selling, General and Administrative ("SG&A"). SG&A expenses consist principally of salaries and related benefits, professional services fees and marketing, general corporate, and administrative expenses. SG&A expenses for the three and nine months ended September 30, 2017, decreased \$0.1 million and increased \$0.5 million, respectively compared to the comparable prior year periods.

The increase in SG&A for the nine months ended September 30, 2017 over the prior year periods was largely due to higher spending on professional services, legal, and travel expenses associated with our negotiations with prospective consumer electronics and volume manufacturing partners, and promotional expenses related to our night vision consumer product activities.

Other Income (Expense), net. Other income (expense), net consists primarily of interest income earned on cash balances and interest expense. Other expense, net for the three and nine months ended September 30, 2017, of \$29 thousand and \$238 thousand, respectively, reflects the write off of \$158 thousand of Stillwater related debt issuance costs in May 2017 upon the termination of this facility.

Liquidity and Capital Resources

For the first nine months of 2017, we had a net loss of \$7.3 million and used \$8.1 million in operating and investing activities.

Cash flow used in operating activities during the nine months ended September 30, 2017 was \$6.9 million, attributable to net loss of \$7.3 million partially offset by a net change in operating assets and liabilities of \$1.8 million and non-cash expenses of \$2.2 million. Cash flow used in operating activities during the nine months ended September 30, 2016 was \$5.7 million.

Cash used in investing activities during the nine months ended September 30, 2017 was \$1.2 million related to equipment purchases primarily to improve manufacturing yields and production capacity. As of September 30, 2017, we had outstanding commitments to purchase approximately \$0.2 million in capital expenditures, and expect to make additional capital expenditures during 2017 to improve our manufacturing and R&D capabilities. Cash used in investing activities during the nine months ended September 30, 2016 was \$1.0 million for equipment purchases.

Cash provided by financing activities during the nine months ended September 30, 2017 of \$4.8 million included net repayments under our credit facility of \$0.9 million partially offset by \$69 thousand from the exercise of stock options, and proceeds of \$5.8 million from a public offering. There were no financing activities during the prior year period.

If we are not able to reach our anticipated level of profitability and cash flows over the next twelve months, it may be necessary to take actions to maintain our current levels of operations including; additional borrowings under our credit facilities, raising capital through issuance of equity, debt or equity linked securities, or to reduce our current levels of operations and implement cost reductions or restructuring activities. As of September 30, 2017, we had cash and working capital of \$2.0 million and \$10.6 million, respectively, and borrowing availability under the ABL facility, net of borrowings of \$0.9 million, of \$3.7 million.

Underwritten Public Offering

On May 24, 2017, we 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 \$5.8 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.

Warrant Transaction

On August 18, 2016, we entered into letter agreements with certain of our warrant holders pursuant to which they agreed to exercise warrants to purchase a total of 2,216,500 shares of our common stock, at an exercise price of \$2.05 per share, which they acquired in December 2015.

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 or 1.33 New Warrant share for each warrant share exercised, with an exercise price of \$2.60 per share, the approximate market price of the Company's shares at the date of the letter agreement. The terms of the warrants are substantially similar to the warrants issued in December 2015. Similar to the earlier warrants, they are not exercisable for nine 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.

ABL Facility

On December 21, 2016, we entered into an asset based revolving credit 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 September 30, 2017, we had 0.9 million in borrowings outstanding under the Financing Agreement and had unused borrowing availability of \$3.7 million. We were in compliance with all debt covenants.

Unsecured financing arrangement

On March 24, 2017, we entered into an unsecured debt financing arrangement with Stillwater Trust LLC, an investor who with affiliates collectively control approximately 46% of our outstanding common stock. Under the financing agreement, we may borrow, through June 30, 2018, up to \$2 million for general working capital purposes and up to an additional \$3 million should our lender not provide borrowing availability under its normal terms and conditions through its ABL facility. The agreement expires and borrowings become due upon the earlier of June 30, 2020; the completion of one or a series of equity financings which raise collectively \$5 million or greater; or an event of default, as defined in the agreement. Amounts borrowed under the financing agreement, once repaid, cannot be reborrowed. 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.

The amounts drawn on the line accrue interest at 6% per annum payable at maturity, and are subject to an upfront drawdown fee of 2% of the amount drawn and a quarterly interest surcharge of 2% paid upfront and due commencing on the 180-day anniversary of each draw regardless of whether the draw is still outstanding and then a 2% quarterly interest surcharge until the draws are repaid. In connection with the financing commitment, the investor received a \$50,000 commitment fee and a warrant to purchase 100,000 shares of common stock at an exercise price of \$2.25 per share, the closing market price of our common stock on the date the arrangement was executed. In the event we do not raise at least \$5 million in proceeds from an equity offering within 180 days of the first draw on the facility, we will be required to file a registered rights offering with the Securities and Exchange Commission within 45 days of the 180-day period to all holders of securities of the Company. In connection with the facility, we, our lender and the investor entered into an intercreditor agreement.

Mr. Christopher Brody, a member of our board of directors, is also the President and Managing Director of Stillwater Holdings LLC and is the Vice President of Stillwater Trust LLC, which is our largest stockholder. The decision of Stillwater Trust LLC to enter into the financing arrangement was made independently of Mr. Brody and the financing was not required or suggested by Mr. Brody. The terms of the financing were determined solely by negotiation among us and Stillwater Trust LLC. Mr. Brody did not participate in the deliberations of our board or the special committee of our board formed to review the terms of the financing with respect to the approval of the financing and abstained from voting thereon.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this Quarterly Report on Form 10-Q.

Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Based on our evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting during the fiscal quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 1. Legal Proceedings

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 October 2017, the parties reached a tentative settlement, subject to payment of an amount not material to the Company, documentation of the terms and the expiration of a revocation period.

ITEM 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q and the risks discussed below, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission, which could materially affect our business, financial condition or future results.

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

None

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

On November 8, 2017, we entered into Change in Control Agreements (the "Change in Control Agreements") with four of our executive officers, Steve Costello, Amalkumar Ghosh, Olivier Prache and Jeffrey P. Lucas (each an "Executive"). The Agreements provide that if, within the twelve-month period following a Change in Control of the Company (as defined in the Change in Control Agreements), the Executive suffers a Terminating Event (as defined below and in the Change in Control Agreements), he will be entitled to receive a lump sum cash payment in an amount equal to the Executive's annual base salary in effect immediately prior to the Terminating Event (or the Executive's annual base salary in effect immediately prior to the Change in Control, if higher), payable in a lump sum on the termination date, provided that the Executive executes and does not revoke a separation agreement and release in favor of us. In addition, if the Executive was participating in our group health plan immediately prior to termination and elects COBRA health continuation, then we will pay the Executive a monthly cash payment for 12 months or the Executive's COBRA health continuation period, whichever ends earlier, in an amount equal to the monthly employer contribution that we would have made to provide health insurance to the Executive if he had remained employed by us.

A "Terminating Event" shall be deemed to have occurred under the Agreements if the Executive (i) is terminated by us other than for Cause (as defined in the Change in Control Agreements), death or Disability (as defined in the Change in Control Agreements) or (ii) terminates his employment with the Company for Good Reason (as defined in the Agreements).

The Change in Control Agreements became effective as of November 8, 2017 (the "Effective Date") and shall terminate upon the earliest of (a) the termination of the Executive's employment for any reason prior to a Change in Control, (b) the termination of the Executive's employment with the Company after a Change in Control for any reason other than the occurrence of a Terminating Event or (c) the date which is twelve months and a day after a Change in Control if the Executive is still employed by the Company.

The foregoing description is a summary of the Change in Control Agreements and should be read in conjunction with the full text of the Form of Change in Control Agreement which is attached to this Quarterly Report on Form 10-Q as Exhibit 10.2 and is incorporated herein by reference.

ITEM 6. Exhibits

| | |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1 | Amended and Restated Certificate of Incorporation (incorporated by reference to an appendix to the Company's Definitive Proxy Statement filed on September 21, 2006). |
| 3.2 | Certificate of Amendment of Amended and Restated Certificate of Incorporation (incorporated by reference to an appendix to the Company's Definitive Proxy Statement filed on October 26, 2010). |
| 3.3 | Bylaws of the Company (incorporated by reference to exhibit 99.3 to the Company's Definitive Proxy Statement filed on June 14, 2001). |
| 4.1 | Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 of the Registrant's current report on Form 8-K filed on December 23, 2008). |
| 4.2 | Form of Letter Agreement (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 24, 2016). |
| 4.3 | Form of common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 to the Registrant's current report on Form 8-K filed on December 18, 2015). |
| 4.4 | Form of Common Stock Purchase Warrant issued to the Warrant Holders in the Transaction (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 24, 2016). |
| 4.5 | Common Stock Purchase Warrant issued on March 24, 2017 to the holder of an unsecured line of credit. (1) |
| 4.6 | Form of Common Stock Purchase Warrant issued to the Warrant Holders in conjunction with an issuance of common shares on May 19, 2017 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 24, 2017). |
| 10.1 | Amended and Restated Employment Agreement dated July 1, 2016, by and between the Company and Andrew G. Sculley, Jr (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on July 7, 2016). |
| 10.2 | Form of Change in Control Agreement for Certain Officers, approved for use on November 8, 2017. |
| 31.1 | Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1) |
| 31.2 | Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1) |
| 32.1 | Certification by Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (2) |
| 32.2 | Certification by Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (2) |
| 101.INS | XBRL Instance Document (1) |
| 101.SCH | XBRL Taxonomy Extension Schema Document (1) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (1) |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document (1) |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document (1) |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (1) |

(1) Filed herewith.

(2) Furnished herewith.

SIGNATURES

Pursuant to the requirements 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: November 9, 2017

By: /s/ Andrew G. Sculley

Andrew G. Sculley
Chief Executive Officer
Principal Executive Officer

Date: November 9, 2017

By: /s/ Jeffrey P. Lucas

Jeffrey P. Lucas
Chief Financial Officer
Principal Accounting and Financial Officer

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

EMAGIN CORPORATION

Warrant Shares: 100,000

Issue Date: March 24, 2017

Initial Exercise Date: September 24, 2017

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, Stillwater Trust LLC or its assigns (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after September 24, 2017 (the "Initial Exercise Date") and on or prior to the close of business on the five year anniversary of the Initial Exercise Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Magin Corporation, a Delaware corporation (the "Company"), up to 100,000 shares (as subject to adjustment hereunder, the "Warrant Shares") of common stock, \$0.001 par value per share, of the Company (the "Common Stock"). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed facsimile copy (or e-mail attachment) of the notice of exercise in the form annexed hereto (the "Notice of Exercise") and within three (3) trading days of the date said Notice of Exercise is delivered to the Company, the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's

check drawn on a United States bank. No ink-original Notice of Exercise shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Exercise form be required. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) trading days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise within one (1) business day of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be \$2.25, subject to adjustment hereunder (the "Exercise Price").

c) Mechanics of Exercise.

i. Delivery of Warrant Shares Upon Exercise. Warrant Shares purchased hereunder shall be transmitted by the transfer agent for the Company (the "Transfer Agent") to the Holder by crediting the account of the Holder's or its designee's balance account with The Depository Trust Company through its Deposit or Withdrawal at Custodian system ("DWAC") if the Company is then a participant in such system and the Warrant Shares are eligible for resale by the Holder without volume or manner-of-sale limitations pursuant to Rule 144, and otherwise by physical delivery of a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of Warrant Shares to which the Holder is entitled pursuant to such exercise to the address specified by the Holder in the Notice of Exercise by the date that is three (3) trading days after the delivery to the Company of the Notice of Exercise (such date, the "Warrant Share Delivery Date"). Upon delivery of the Notice of Exercise the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of the Warrant Shares.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the Warrant Shares, deliver to the Holder a new Warrant

evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. Rescission Rights. If the Company fails to cause the Transfer Agent to transmit to the Holder the Warrant Shares pursuant to Section 2(d)(i) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

iv. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

v. Charges, Taxes and Expenses. Issuance of Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of Warrant Shares, all of which taxes and expenses shall be paid by the Company, and such Warrant Shares shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event that Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto. The Company shall pay all Transfer Agent fees required for same-day processing of any Notice of Exercise and all fees to the Depository Trust Company (or another established clearing corporation performing similar functions) required for same-day electronic delivery of the Warrant Shares.

vi. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Voluntary Adjustment by Company. Unless prohibited by the listing rules of the Trading Market on which the Common Stock listed or quoted, the Company may at any time during the term of this Warrant, with the prior written consent of the Holder, reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

c) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 3(a) above, if at any time the Company grants, issues or sells any securities of the Company or its subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock, or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof).

d) Pro Rata Distributions. During such time as this Warrant is outstanding, if the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Warrant, then, in each such case, the Holder shall be

entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof).

e) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, or (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another person or group of persons whereby such other person or group acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other person or other persons making or party to, or associated or affiliated with the other persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3(e) in connection with any subsequent transaction analogous to a Fundamental Transaction.

f) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

g) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly deliver to the Holder by facsimile or email a notice setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be delivered by facsimile or email to the Holder at its last facsimile number or email address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(d) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or

attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company unless the Holder has assigned this Warrant in full, in which case, the Holder shall surrender this Warrant to the Company within three (3) trading days of the date the Holder delivers an assignment form to the Company assigning this Warrant full. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the issuance date and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Representation by the Holder. The Holder, by the acceptance hereof, represents and warrants that it is acquiring this Warrant and, upon any exercise hereof, will acquire the Warrant Shares issuable upon such exercise, for its own account and not with a view to or for distributing or reselling such Warrant Shares or any part thereof in violation of the Securities Act or any applicable state securities law, except pursuant to sales registered or exempted under the Securities Act.

Section 5. Miscellaneous.

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2(c)(i), except as expressly set forth in Section 3.

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant

Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of issuing the necessary Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the trading market upon which the Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (i) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (ii) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and (iii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction

thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered and will have restrictions upon resale imposed by state and federal securities laws.

g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding

upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

(Signature Page Follows)

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

EMAGIN CORPORATION

By: /s/ Jeffrey P. Lucas
Name: Jeffrey P. Lucas
Title: Chief Financial Officer

NOTICE OF EXERCISE

TO: EMAGIN CORPORATION

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of lawful money of the United States.

(3) Please issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following DWAC Account Number:

(4) Accredited Investor. The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended

[SIGNATURE OF HOLDER]

Name of Investing Entity:

Signature of Authorized Signatory of Investing Entity:

Name of Authorized Signatory:

Title of Authorized Signatory:

Date:

ASSIGNMENT FORM

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

Name:

(Please Print)

Address:

(Please Print)

Phone
Number:

Email Address:

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

CHANGE IN CONTROL AGREEMENT

This Change in Control Agreement (“Agreement”) is made as of the 8th day of November, 2017 by and between eMagin Corporation, a Delaware corporation (the “Company”), and _____ (the “Employee”).

1. Purpose. The Company considers it essential to the best interests of its stockholders to promote and preserve the continuous employment of key management personnel. The Board of Directors of the Company (the “Board”) recognizes that, as is the case with many corporations, the possibility of a Change in Control (as defined in Section 2 hereof) exists and that such possibility, and the uncertainty and questions that it may raise among management, may result in the departure or distraction of key management personnel to the detriment of the Company and its stockholders. Therefore, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company’s key management, including the Employee, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control. Nothing in this Agreement shall be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Employee and the Company, the Employee shall not have any right to be retained in the employ of the Company.

2. Change in Control. A “Change in Control” shall be deemed to have occurred upon the occurrence of any one of the following events:

(a) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Act”) (other than the Company, any of its subsidiaries, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its subsidiaries), together with all “affiliates” and “associates” (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 50 percent or more of the combined voting power of the Company’s then outstanding securities having the right to vote in an election of the Board (“Voting Securities”) (in such case other than as a result of an acquisition of securities directly from the Company); or

(b) the consummation of (i) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate more than 50 percent of the voting shares of the Company issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), or (ii) any sale or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company.

Notwithstanding the foregoing, a “Change in Control” shall not be deemed to have occurred for purposes of the foregoing clause (a) (i) solely as the result of an acquisition of

securities by the Company that, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of shares of Voting Securities beneficially owned by any person to 50 percent or more of the combined voting power of all then outstanding Voting Securities; provided, however, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company) and immediately thereafter beneficially owns 50 percent or more of the combined voting power of all then outstanding Voting Securities, then a "Change in Control" shall be deemed to have occurred for purposes of the foregoing clause (a); and/or (ii) solely as a result of a transfer of securities of the Company by Stillwater Trust LLC to any of its Affiliates. For the purposes of this Section 2, "Affiliates" shall mean, with respect to Stillwater Trust LLC, any person and/or entity that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with Stillwater Trust LLC, as determined immediately prior to the event that would otherwise constitute a Change in Control.

3. Terminating Event.

A "Terminating Event" shall mean any of the events provided in this Section 3:

(a) Termination by the Company. Termination by the Company of the employment of the Employee with the Company for any reason other than for Cause, death or Disability. For purposes of this Agreement, "Cause" shall mean, as determined by the Board in good faith:

(i) the Employee's failure to devote substantially all of Employee's full professional time, attention, energies, and abilities to Employee's employment duties for the Company, which failure is not cured after the Company provides the Employee with notice of the failure and a reasonable opportunity to cure it;

(ii) the Employee's inducement of any customer, consultant, employee, or supplier of the Company to unreasonably breach any contract with the Company or cease its business relationship with the Company;

(iii) the Employee's willful, deliberate, and persistent failure to reasonably perform the duties and obligations of the Employee's employment which are not remedied after the Company provides the Employee with notice of the failure and a reasonable opportunity to cure it;

(iv) an act or acts of dishonesty undertaken by the Employee resulting in substantial personal gain by the Employee at the expense of the Company;

(v) the Employee's material breach of a fiduciary or contractual duty to the Company;

(vi) commission of a felony; or

(vii) the Employee's commission of an act that results in material long term harm to the goodwill or reputation of the Company.

A Terminating Event shall not be deemed to have occurred pursuant to this Section 3(a) solely as a result of the Employee being an employee of any direct or indirect successor to the business or assets of the Company, rather than continuing as an employee of the Company following a Change in Control. For purposes hereof, the Employee will be considered "Disabled" if, as a result of the Employee's incapacity due to physical or mental illness, the Employee shall have been absent from his duties to the Company on a full-time basis for 180 calendar days in the aggregate in any 12-month period.

(b) Termination by the Employee for Good Reason Termination by the Employee of the Employee's employment with the Company for Good Reason. For purposes of this Agreement, "Good Reason" shall mean that the Employee has complied with the "Good Reason Process" (hereinafter defined) following, the occurrence of any of the following events:

- (i) any significant change in the Employee's title, or position, or duties and responsibilities not initiated, or voluntarily agreed to, by the Employee;
- (ii) any material involuntary decrease in base salary (other than any which may be assessed on a percentage basis to the Company as a whole); or
- (iii) any material breach of this Agreement by the Company.

"Good Reason Process" shall mean that (i) the Employee reasonably determines in good faith that a "Good Reason" condition has occurred; (ii) the Employee notifies the Company in writing of the first occurrence of the Good Reason condition within 60 days of the first occurrence of such condition; (iii) the Employee cooperates in good faith with the Company's efforts, for a period not less than 30 days following such notice (the "Cure Period"), to remedy the condition; (iv) notwithstanding such efforts, the Good Reason condition continues to exist; and (v) the Employee terminates his employment within 60 days after the end of the Cure Period. If the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.

4. Change in Control Payment. In the event a Terminating Event occurs within twelve months after a Change in Control and provided the Employee enters into and complies with a separation and release agreement in a form provided by the Company (a "Release") within the timeframe set forth in the Release but in no event more than 60 days after the Date of Termination, the following shall occur:

- (a) the Company shall pay to the Employee an amount equal to one times the Employee's annual base salary in effect immediately prior to the Terminating Event (or the Employee's annual base salary in effect immediately prior to the Change in Control, if higher), payable in one lump-sum payment on the Date of Termination; and
- (b) if the Employee was participating in the Company's group health plan immediately prior to the Date of Termination and elects COBRA health continuation, then the Company shall pay to the Employee a monthly cash payment for 12 months or the Employee's

COBRA health continuation period, whichever ends earlier, in an amount equal to the monthly employer contribution that the Company would have made to provide health insurance to the Employee if the Employee had remained employed by the Company.

5. Additional Limitation.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that the amount of any compensation, payment or distribution by the Company to or for the benefit of the Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, calculated in a manner consistent with Section 280G of the Code and the applicable regulations thereunder (the "Aggregate Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, then the Aggregate Payments shall be reduced (but not below zero) so that the sum of all of the Aggregate Payments shall be \$1.00 less than the amount at which the Employee becomes subject to the excise tax imposed by Section 4999 of the Code; provided that such reduction shall only occur if it would result in the Employee receiving a higher After Tax Amount (as defined below) than the Employee would receive if the Aggregate Payments were not subject to such reduction. In such event, the Aggregate Payments shall be reduced in the following order, in each case, in reverse chronological order beginning with the Aggregate Payments that are to be paid the furthest in time from consummation of the transaction that is subject to Section 280G of the Code: (1) cash payments not subject to Section 409A of the Code; (2) cash payments subject to Section 409A of the Code; (3) equity-based payments and acceleration; and (4) non-cash forms of benefits; provided that in the case of all the foregoing Aggregate Payments all amounts or payments that are not subject to calculation under Treas. Reg. §1.280G-1, Q&A-24(b) or (c) shall be reduced before any amounts that are subject to calculation under Treas. Reg. §1.280G-1, Q&A-24(b) or (c).

(b) For purposes of this Section 5, the "After Tax Amount" means the amount of the Aggregate Payments less all federal, state, and local income, excise and employment taxes imposed on the Employee as a result of the Employee's receipt of the Aggregate Payments. For purposes of determining the After Tax Amount, the Employee shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes at the highest marginal rates of individual taxation in each applicable state and locality, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

(c) The determination as to whether a reduction in the Aggregate Payments shall be made pursuant to Section 5(a) shall be made by a nationally recognized accounting firm selected by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Employee within 15 business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Company or the Employee. Any determination by the Accounting Firm shall be binding upon the Company and the Employee.

6. Section 409A.

(a) Anything in this Agreement to the contrary notwithstanding, if at the time of the Employee's "separation from service" within the meaning of Section 409A of the Code, the Company determines that the Employee is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Employee becomes entitled to under this Agreement on account of the Employee's separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Employee's separation from service, or (B) the Employee's death.

(b) The parties intend that this Agreement will be administered in accordance with Section 409A of the Code. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner so that all payments hereunder comply with Section 409A of the Code. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party.

(c) All in-kind benefits provided and expenses eligible for reimbursement under this Agreement shall be provided by the Company or incurred by the Employee during the time periods set forth in this Agreement. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of in-kind benefits provided or reimbursable expenses incurred in one taxable year shall not affect the in-kind benefits to be provided or the expenses eligible for reimbursement in any other taxable year. Such right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(d) To the extent that any payment or benefit described in this Agreement constitutes "non-qualified deferred compensation" under Section 409A of the Code, and to the extent that such payment or benefit is payable upon the Employee's termination of employment, then such payments or benefits shall be payable only upon the Employee's "separation from service." The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

(e) The Company makes no representation or warranty and shall have no liability to the Employee or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

7. Term. This Agreement shall take effect on the date first set forth above and shall terminate upon the earlier of (a) the termination of the Employee's employment for any reason

prior to a Change in Control, (b) the termination of the Employee's employment with the Company after a Change in Control for any reason other than the occurrence of a Terminating Event, or (c) the date which is twelve months after a Change in Control if the Employee is still employed by the Company.

8. Withholding. All payments made by the Company to the Employee under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under applicable law.

9. Notice and Date of Termination

(a) Notice of Termination. After a Change in Control and during the term of this Agreement, any purported termination of the Employee's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with this Section 9. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(b) Date of Termination. "Date of Termination" shall mean: (i) if the Employee's employment is terminated by his death, the date of his death; (ii) if the Employee's employment is terminated on account of Employee's Disability or by the Company with or without Cause, the date on which Notice of Termination is given; (iii) if the Employee's employment is terminated by the Employee without Good Reason, 30 days after the date on which a Notice of Termination is given, and (iv) if the Employee's employment is terminated by the Employee with Good Reason, the date on which a Notice of Termination is given after the end of the Cure Period. Notwithstanding the foregoing, in the event that the Employee gives a Notice of Termination to the Company, the Company may unilaterally accelerate the Date of Termination and such acceleration shall not result in a termination by the Company for purposes of this Agreement.

10. No Mitigation. The Company agrees that, if the Employee's employment by the Company is terminated during the term of this Agreement, the Employee is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Employee by the Company pursuant to Section 4 hereof. Further, the amount of any payment provided for in this Agreement shall not be reduced by any compensation earned by the Employee as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Employee to the Company or otherwise.

11. Consent to Jurisdiction. The parties hereby consent to the jurisdiction of the courts of the State of New York and the United States District Court for the Southern District of New York. Accordingly, with respect to any such court action, the Employee (a) submits to the personal jurisdiction of such courts; (b) consents to service of process; and (c) waives any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction or service of process.

12. Integration; Protected Disclosures. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes in all

respects all prior agreements between the parties concerning such subject matter. The terms of any agreement relating to confidentiality, assignment of inventions, noncompetition and/or nonsolicitation agreement between the Employee and the Company or any its affiliates or assigns (a "Restrictive Covenant Agreement") shall be incorporated by reference as material terms of this Agreement. For the avoidance of doubt, nothing in contained in this Agreement, any Restrictive Covenant Agreement or otherwise shall limit the Employee's ability to communicate with any federal, state or local governmental agency or commission, including providing documents or other information, without notice to the Company.

13. Successor to the Employee. This Agreement shall inure to the benefit of and be enforceable by the Employee's personal representatives, executors, administrators, heirs, distributees, devisees and legatees. In the event of the Employee's death after a Terminating Event but prior to the completion by the Company of all payments due him under this Agreement, the Company shall continue such payments to the Employee's beneficiary designated in writing to the Company prior to his death (or to his estate, if the Employee fails to make such designation).

14. Enforceability. If any portion or provision of this Agreement (including, without limitation, any portion or provision of any Section of this Agreement) shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

15. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

16. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by a nationally recognized overnight courier service of by registered or certified mail, postage prepaid, return receipt requested, to the Employee at the last address the Employee has filed in writing with the Company, or to the Company at its main office, attention of the Board of Directors.

17. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Employee and by a duly authorized representative of the Company.

18. Effect on Other Plans. An election by the Employee to resign after a Change in Control under the provisions of this Agreement shall not be deemed a voluntary termination of employment by the Employee for the purpose of interpreting the provisions of any of the Company's benefit plans, programs or policies. Nothing in this Agreement shall be construed to limit the rights of the Employee under the Company's benefit plans, programs or policies except as otherwise provided in Section 5 hereof, and except that the Employee shall have no rights to any severance benefits under any Company severance pay plan. In the event that the Employee

is party to an employment agreement with the Company providing for change in control payments or benefits, the Employee may receive payment under this Agreement only and not both. The Employee shall make such an election in the event of a Change in Control.

19. Governing Law. This is a New York contract and shall be construed under and be governed in all respects by the laws of the State of New York, without giving effect to the conflict of laws principles of such State. With respect to any disputes concerning federal law, such disputes shall be determined in accordance with the law as it would be interpreted and applied by the United States Court of Appeals for the Second Circuit.

20. Successor to Company. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement to the same extent that the Company would be required to perform it if no succession had taken place. Failure of the Company to obtain an assumption of this Agreement at or prior to the effectiveness of any succession shall be a material breach of this Agreement.

21. Gender Neutral. Wherever used herein, a pronoun in the masculine gender shall be considered as including the feminine gender unless the context clearly indicates otherwise.

22. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be taken to be an original; but such counterparts shall together constitute one and the same document.

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the date and year first above written.

EMAGIN CORPORATION

By: _____
Name:
Title:

[Employee]
[Title]

**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 quarterly report on Form 10-Q of eMagin Corporation.
2. Based on my knowledge, this report 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 period 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;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 9, 2017

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 quarterly report on Form 10-Q of eMagin Corporation.

2. Based on my knowledge, this report 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 period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

- a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 9, 2017

By: /s/ Jeffrey P. Lucas
Jeffrey P. Lucas
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 Quarterly Report of eMagin Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2017, 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: November 9, 2017

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 Quarterly Report of eMagin Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey P. Lucas, 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: November 9, 2017

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