CHINA LIFE INSURANCE CO LTD
Form 6-K
October 30, 2007

Commission File Number 001-31914

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

October 30, 2007

China Life Insurance Company Limited

(Translation of registrant s name into English)

16 Chaowai Avenue

Chaoyang District

Beijing 100020, China

Tel: (86-10) 8565-9999

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F:

Form 20-F __X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ______ No __X__

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-____

Commission File Number 001-31914

China Life Insurance Company Limited issued an announcement on October 29, 2007, a copy of which is attached as Exhibit 99.1 hereto.

EXHIBIT LIST

Exhibit	Description
99.1	Announcement, dated October 29, 2007

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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.

China Life Insurance Company Limited
(Registrant)

By: /s/ Wan Feng
(Signature)

October 30, 2007

Name: Wan Feng
Title: President and Executive Director

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EXHIBIT 99.1

CHINA LIFE INSURANCE COMPANY LIMITED

(A joint stock limited company incorporated in the
People s Republic of China with limited liability)
(the Company)
(Stock code: 02628)

2007 THIRD QUARTER REPORT

This announcement is made by China Life Insurance Company Limited (the Company) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements of the Company for the third quarter of 2007 are unaudited and have been prepared in accordance with generally accepted accounting principles in People s Republic of China.

1. IMPORTANT NOTICE

1.1 The Board of Directors, the Supervisory Committee of the Company and its Directors, Supervisors and senior management of the Company warrant that there are no false representations or misleading statements or material omissions in the 2007 third quarter report, and jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in the 2007 third quarter report.

1.2 All of the Directors of the Company have, by way of written approval, approved the 2007 third quarter report of the Company.

1.3 The financial statements contained in the 2007 third quarter report are unaudited.

1.4 Mr. Yang Chao, Chairman of the Company, Mr. Liu Jiade, Vice President in charge of accounting affairs function, Ms. Shiu Wai Chung, Chief Actuary and Mr. Zhao Lijun, person in charge of the finance department, confirm that the financial statements in the 2007 third quarter report are true and complete.

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2. BASIC INFORMATION OF THE COMPANY

2.1 Major accounting data and financial indicators

	As at 30 September, 2007	**As at 31 December, 2006**	**Increase/decrease compared to prior year end (%)**
Total assets *(RMB million)*	925,237	727,085	27.25
Total equity (excluding minority interest) *(RMB million)*	168,725	115,557	46.01
Net assets per share *(RMB)*	5.97	4.09	46.01

	For the nine months ended 30 September, 2007	**Increase/decrease compared to the same period of 2006 (%)**
Net cash flow from operating activities *(RMB million)*	N/A	N/A
Net cash flow per share from operating activities *(RMB)*	N/A	N/A

	For the reporting period (from July to September)	**For the nine months ended 30 September, 2007**	**Increase/decrease compared to the same period of 2006**
Net profit *(RMB million)*	7,823	24,696	N/A
Basic earnings per share *(RMB)*	0.27	0.87	N/A
Basic earnings per share after deducting non-recurring items *(RMB)*		0.87	
Diluted Earnings per share *(RMB)*	0.27	0.87	N/A
Return on net assets *(%)*	4.64	14.64	N/A
Return on net assets after deducting non-recurring items *(%)*	4.64	14.64	N/A

As at 30 September, 2007, investment assets of the Company were RMB878,827 million. For the nine months ended 30 September, 2007, the investment yield was 8.63% and the surrender ratio was 4.90%. (The growth ratio of premiums earned not applicable; no corresponding figures for the period ended 30 September, 2006)

Non-recurring items	For the nine months ended 30 September, 2007 *(RMB million)*
Gains/losses on disposal of non-current assets	12
Non-operating income and expenses other than those mentioned above, net	(22)
Income tax expenses impacted	3
Total	(7)

2.2 Total number of shareholders and top ten holders of listed shares not subject to trading moratorium as at the end of the reporting period

Total number of shareholders at the end of the reporting period (Shareholders)	Number of A share holders: 147,614 Number of H share holders: 37,055

Particulars of top ten holders of listed shares not subject to trading moratorium

Name of shareholders	Number of listed shares not subject to moratorium held at the end of the reporting period	Type of shares
HKSCC Nominees Limited	6,884,099,163	H shares
Richbo Investment Limited	428,358,620	H shares
Industrial and Commercial Bank of China - Lion Stock Securities Investment Fund*	37,964,174	A shares
China Everbright Bank Co., Ltd. - Everbright Pramerica Quantization Core Securities Investment*	25,899,316	A shares
Bank of China - Dacheng Blue Chip Sustaining Securities Investment Fund*	15,000,000	A shares
Jingfu Securities Investment Fund*	14,000,000	A shares
Industrial and Commercial Bank of China - Huitianfu (China Universal) Growing Focus Stock Securities Investment Fund*	11,325,200	A shares
Industrial and Commercial Bank of China - Boshi Tertiary Industry Growing Stock Securities Investment Fund*	11,000,000	A shares
Industrial and Commercial Bank of China - Huitianfu (China Universal) Balanced Growing Stock Securities Investment Fund*	10,764,355	A shares

China Pingan Insurance Co., Ltd. - Dividend-Individual Dividend*	10,572,050	A shares

* English translation for the Chinese names.

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3. SIGNIFICANT EVENTS

3.1 Particulars of, and reasons for, material changes in major accounting items and financial indicators of the Company

x Applicable ¨ Not applicable

Key Financial Index	As at 30 September, 2007	As at 31 December, 2006	Change (%)	Main reasons
Total equity (excluding minority interest) *(RMB million)*	168,725	115,557	46.01	Steady growth of insurance business, significant improvement in investment return, increase in unrealized gains of available-for-sale financial assets
Net assets per share *(RMB)*	5.97	4.09	46.01	Steady growth of insurance business, significant improvement in investment return, increase in unrealized gains of available-for-sale financial assets

RMB million

Key Financial Index	As at 30 September, 2007	As at 31 December, 2006	Change (%)	Main reasons
Premiums receivables	7,795	5,734	35.94	Steady growth of insurance business
Receivables from reinsurers	67	126	-46.83	Settlement of reinsurance business
Policy loans	4,880	2,371	105.82	Increase in policy loans business
Available-for-sale financial assets	381,913	239,463	59.49	Increase in available-for-sale financial assets and the unrealized gains
Financial assets sold under agreements to repurchase	53,016	8,227	544.41	Increase in investment
Premiums received in advance	1,039	1,641	-36.68	Impact by the business cycle
Payables to reinsurers	130	4	3150.00	Increase in short-term ceded business
Employees remuneration payable	2,625	1,951	34.55	Increase in SARS expense due to the raise of H share price
Taxes and statutory fees payable	9,171	1,157	692.65	Significant increase of income tax payable

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Key Financial Index	As at 30 September, 2007	As at 31 December, 2006	Change (%)	Main reasons
Benefits and claims payable	3,442	2,594	32.69	Insurance business cycle, accumulation of insurance responsibility and centralized maturity of some products
Policyholder dividends payable	62,980	30,491	106.55	Significant increase of investment return from participating insurance products
Deferred tax liabilities	12,226	7,148	71.04	Increase of unrealized gains in available-for-sale financial assets
Capital reserves	99,343	66,872	48.56	Increase of unrealized gains in available-for-sale financial assets
Surplus reserves fund	3,696	2,736	35.09	Increase in surplus reserves retained by the Company
Retained earnings	37,421	17,684	111.61	Steady growth of insurance business, significant improvement in investment return
Minority interest	879	540	62.78	Increase of the net profits of the subsidiaries

3.2 Explanation and analysis of significant events and their impacts and solutions

x Applicable ¨ Not applicable

By a resolution passed at the second extraordinary meeting of the second session of the Board held on 26 September, 2007, Mr. Wan Feng was appointed as the Company s President following a nomination by the Chairman of the Company. Related announcements can be found in China Securities Journal and Shanghai Securities Journal on 27 September, 2007, as well as http://www.sse.com.cn and http://www.e-chinalife.com.

3.3 Status of performance of undertakings by the Company, its shareholders and de facto controllers

x Applicable ¨ Not applicable

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During the reporting period ended 30 September 2007, our controlling shareholder China Life Insurance (Group) Company has undertaken that it will not, within 36 months from the listing of A shares of the Company, transfer nor authorize others to manage any shares of the Company that is directly or indirectly owned by it, nor will it allow the Company acquire such shares. China Life Insurance (Group) Company has strictly adhered to and will strictly adhere to the above undertaking.

At the time of the restructuring and establishment of the Company, China Life Insurance (Group) Company injected into the Company certain land use rights and properties. Of the land use rights titles injected into the Company, formalities for change of titles have not been completed for the land use rights in respect of 4 pieces of land with a total area of 10,421.12 square meters. Of the properties that were injected into the Company, formalities for change of title have not been completed for 6 properties with a gross floor area of 8,639.76 square meters. China Life Insurance (Group) Company undertakes that it will, within one year from the date of listing of the Company s A shares, assist the Company in completing the formalities for change of titles in respect of the 4 pieces of land and 6 properties mentioned above, failing which it will bear any loss that may be suffered by the Company as a result of such defective titles. China Life Insurance (Group) Company will strictly adhere to the above undertaking and is now actively dealing with the formalities for change of titles in relation to the above land and properties.

China CMG Life Insurance Company Ltd. is a sino-foreign equity joint venture established on 4 July 2000 and owned as to 51% by China Life Insurance (Group) Company and as to 49% by CMG Group of Australia. The business scope of China CMG Life Insurance Company Ltd. is to conduct the following businesses (excluding statutory insurance business) within the administrative district of Shanghai municipality and in the provinces, autonomous regions and centrally-governed cities where its branches have been established: (1) insurance business such as life insurances, health insurances and accident and injuries insurances; (2) re-insurance of the above insurance business. China Life Insurance (Group) Company agrees that it will, within 3 years of the listing of the Company on the Stock Exchange of Hong Kong, sell all its interests in such equity joint venture to any third parties or otherwise eliminate any competition between China CMG Life Insurance Company Ltd. and the Company. China Life Insurance (Group) Company is now actively working towards the disposal of its interests in China CMG Life Insurance Company Ltd.

3.4 Warnings and explanation on accumulated net loss expected to be recorded from the beginning of the year to the end of the next reporting period or material changes as compared to the same period of 2006

¨ Applicable x Not applicable

3.5 Other significant events

3.5.1 The Company s shareholdings in other listed companies

x Applicable ¨ Not applicable

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Serial No.	Stock code	Abbreviation	Number of shares *(million)*	Percentage in the shares *(%)*	Initial investment cost *(RMB million)*	Items in financial statements
1	600030	CITIC Securities	393	12.01	6,430	Available-for-sale financial assets
			5		63	Hold-for-trading financial assets
2	600016	China Ming Sheng Banking Corporation	180	6.17	748	Hold-for-trading financial assets
			714		5,448	Available-for-sale financial assets
3	601939	China Construction Bank	702	0.48	4,529	Available-for-sale financial assets
	HK0939		408		1,063	Available-for-sale financial assets
4	601088	China Shenhua	137	0.69	5,071	Available-for-sale financial assets
5	601398	Industrial and Commercial Bank of China	24	0.44	75	Hold-for-trading financial assets
			779		2,432	Available-for-sale financial assets
	HK1398		651		2,030	Available-for-sale financial assets
6	601988	Bank of China	123	0.21	380	Available-for-sale financial assets
			17		53	Hold-for-trading financial assets
	HK3988		394		1,180	Available-for-sale financial assets
7	601318	China Ping An	31	0.42	1,160	Available-for-sale financial assets
8	600009	Shanghai Airport	43	2.37	1,002	Available-for-sale financial assets
			2		36	Hold-for-trading financial assets
9	600036	China Merchants Bank	38	0.34	793	Available-for-sale financial assets
			11		83	Hold-for-trading financial assets
10	600019	Bao Steel	13	0.58	63	Hold-for-trading financial assets
			89		785	Available-for-sale financial assets
Total					33,424	

Note: The figures contained in *Number of shares* and *Percentage in the shares* have been rounded up

3.5.2 The Company s shareholdings in unlisted financial companies or companies proposed to be listed

x Applicable ¨ Not applicable

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Company name	*Initial investment cost (RMB million)*	Number of shares *(million)*	Percentage in the shares *(%)*	Book value as at the end of reporting period *(RMB million)*
Guangdong Development Bank	5,671	2,282	20	6,026
China Life Property and Casualty Insurance Company Limited	400	400	40	393
Total	6,071	2,682		6,419

Note: Excluding the subsidiary companies.

This announcement is published in both Chinese and English languages. The Chinese version shall prevail.

By Order of the Board of
China Life Insurance Company Limited
Heng Kwoo Seng
Company Secretary

As at the date of this announcement, the Board of Directors of the Company comprises:

Executive Directors:	Yang Chao, Wan Feng
Non-executive Directors:	Shi Guoqing, Zhuang Zuojin
Independent non-executive Directors:	Long Yongtu, Sun Shuyi, Ma Yongwei, Chau Tak Hay, Cai Rang, Ngai Wai Fung

Hong Kong, 29 October, 2007

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Shareholders’ equity:

Preferred stock, $.001 par value: authorized 10,000,000 shares:

Series B Convertible Preferred stock, (liquidation preference of $5,679,000 at September 30, 2010) stated value $1,000 per share, $.001 par value: 10,000 shares designated and 5,679 issued and outstanding as of September 30, 2010 and 5,739 as of December 31, 2009

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Common stock, $.001 par value: authorized 200,000,000 shares, issued and outstanding, 19,938,992 shares as of September 30, 2010 and 16,967,244 as of December 31, 2009

		17
Additional paid-in capital		
		205,372
		193,358
Accumulated deficit		
		(195,482
)		
		(190,482
)		
Total shareholders' equity		
		9,910
		2,893
Total liabilities and shareholders' equity		
$		
		21,180
$		
		13,980

See notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30, 2010 (Restated) See Note 15	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010 (Restated) See Note 15	Nine Months Ended September 30, 2009
Revenue:				
Product revenue	$ 6,936	$ 5,260	$ 17,826	$ 14,560
Contract revenue	1,320	847	4,669	2,543
Total revenue, net	8,256	6,107	22,495	17,103
Cost of goods sold:				
Product revenue	2,105	1,996	6,590	5,817
Contract revenue	683	611	2,380	1,528
Total cost of goods sold	2,788	2,607	8,970	7,345
Gross profit	5,468	3,500	13,525	9,758
Operating expenses:				
Research and development	511	463	1,888	1,376
Selling, general and administrative	2,054	1,772	6,873	5,083
Total operating expenses	2,565	2,235	8,761	6,459
Income from operations	2,903	1,265	4,764	3,299
Other income (expense):				
Interest expense	(21)	(76)	(79)	(417)
Other income, net	2	1	10	41
Change in fair value of warrant liability	723	(3,315)	(9,620)	(6,379)
Total other income (expense) , net	704	(3,390)	(9,689)	(6,755)
Income (loss) before provision for income taxes	3,607	(2,125)	(4,925)	(3,456)
Provision for income taxes	56	—	75	—
Net income (loss)	$ 3,551	$ (2,125)	$ (5,000)	$ (3,456)

Income per share, basic	$	0. 13	$	(0.13)	$	(0. 27)	$	(0.21)
Income per share, diluted	$	0.08	$	(0.13)	$	(0.27)	$	(0.21)
Weighted average number of shares outstanding:								
Basic		19,883,029		16,513,101		18,781,185		16,133,646
Diluted		24,244,477		16,513,101		18,781,185		16,133,646

See notes to Condensed Consolidated Financial Statements.

eMAGIN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except for share data)
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital (Restated) See Note 15	Accumulated Deficit (Restated) See Note 15	Total Shareholders' Equity (Restated) See Note 15
	Shares	Amount	Shares	Amount			
Balance, December 31, 2009	5,739	$ —	16,967,244	$ 17	$ 193,358	$ (190,482)	$ 2,893
Fair value of warrants reclassified from liability to equity upon exercise					10,013	10,013	
Cashless exercise of common stock warrants			2,601,591	2	(2)		—
Conversion of Series B Preferred Stock to common stock	(60)	—	80,000	—	—		—
Issuance of common stock for services			15,363	—	55		55
Exercise of common stock warrants			100,000	1	249		250
Exercise of common stock options			174,794	—	322		322
Stock-based compensation					1,377		1,377
Net loss						5,000	5,000
Balance, September 30, 2010	5,679	$ —	19,938,992	$ 20	$ 205,372	$ (195,482)	$ 9,910

See notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,			
	2010 (Restated) See Note 15		2009	
	(unaudited)			
Cash flows from operating activities:				
Net loss	$	(5,000)	$	(3,456)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization		52		65
Amortization of deferred financing and waiver fees		—		362
(Reduction of) provision for sales returns and doubtful accounts		(260)		(423)
Stock-based compensation		1,377		926
Amortization of common stock issued for services		61		178
Change in fair value of warrant liability		9,620		6,379
Changes in operating assets and liabilities:				
Accounts receivable		(468)		(45)
Inventory		508		309
Prepaid expenses and other current assets		72		(54)
Deferred revenue		(84)		56
Accounts payable, accrued compensation, other accrued expenses, and advance payments		827		(725)
Other current liabilities		(97)		(121)
Net cash provided by operating activities		6,608		3,451
Cash flows from investing activities:				
Purchase of equipment		(2,261)		(492)
Purchase of investments – held to maturity		(3,500)		—
Net cash used in investing activities		(5,761)		(492)
Cash flows from financing activities:				
Payments of debt		—		(1,654)
Proceeds from exercise of stock options and warrants		572		—
Net cash provided by (used in) financing activities		572		(1,654)
Net increase in cash and cash equivalents		1,419		1,305
Cash and cash equivalents, beginning of period		5,295		2,404
Cash and cash equivalents, end of period	$	6,714	$	3,709
Cash paid for interest	$	76	$	67
Cash paid for taxes	$	125	$	46
Supplemental information of non-cash operating and financing activities:				
Common stock issued for services charged to prepaid expenses	$	—	$	126
	$	—	$	—

Issuance of 2,601,591 shares of common stock for cashless exercise of 3,778,811 warrants in 2010		
Conversion of 60 shares of Series B Convertible Preferred Stock into 80,000 shares of common stock in 2010	$ —	$ —

See notes to Condensed Consolidated Financial Statements.

eMAGIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Description of the Business and 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. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the Securities and Exchange Commission. The Company believes that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited 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, 2009. The results of operations for the period ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year.

In this Amended 10-Q, the Company restated its previously issued condensed consolidated financial statements as of and for the three and nine months ended September 30, 2010 to correct errors in the accounting for certain warrants and the calculation of EPS as discussed in Note 15, "Restatement".

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. Management bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Revenue and Cost Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, selling price is fixed or determinable and collection is reasonably assured. Product revenue is generally recognized when products are shipped to customers. The Company defers revenue recognition on products sold directly to the consumer with a maximum thirty day right of return. Revenue is recognized upon the expiration of the right of return.

The Company also earns revenues from certain R&D activities (contract revenues) under both firm fixed-price contracts and cost-type contracts. Revenues 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). Contract costs include all direct material and labor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party.

Product warranty

The Company offers a one-year product replacement warranty. In general, the standard policy is to repair or replace the defective products. The Company accrues for estimated returns of defective products at the time revenue is recognized based on historical 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.

Research and Development Costs

Research and development costs are expensed as incurred.

Note 2: Recently Issued Accounting Pronouncements

In April 2010, the FASB amended the authoritative guidance on the milestone method of revenue recognition. The amendment defines a milestone and determines when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. This new guidance permits prospective adoption for milestones achieved in fiscal years and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. As the Company plans to implement the guidance prospectively, the effect of this guidance will be limited to future transactions. The Company does not expect adoption of this standard to have a material impact on its financial position or results of operations as it has no material research and development arrangements which are accounted for under the milestone method.

Note 3: Fair Value Measurement Measurement - Restated

Authoritative accounting guidance defines fair value, establishes a framework for measuring fair value and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – valued based on quoted prices at the measurement date for identical assets or liabilities trading in active markets.
Level 2 – quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.
Level 3 – valuations derived from valuation techniques in which one or more significant inputs are not readily observable.

Recurring Fair Value Estimates

As of September 30, 2010, the certificates of deposits comprising of short-term and long-term investments – held to maturity of $3.6 million are classified as Level 1.

The Company's recurring fair value measurements of the warrant liability at September 30, 2010 were as follows (in thousands):

	Fair Value as of September 30, 2010	Fair Value Measurement Using Level 1	Level 2	Level 3
Warrant liability, current	$ 3,728	$ —	$ —	$ 3,728
Warrant liability, long-term	2,757	—	—	2,757
Total Warrant liability	$ 6,485	$ —	$ —	$ 6,485

Note: Classification is based on warrant expiration date.

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Recurring Level 3 Activity, Reconciliation and Basis for Valuation

The table below provides a reconciliation of the beginning and ending balances for the liabilities measured at fair value using significant unobservable inputs (Level 3) (in thousands).

Balance as of January 1, 2010	$ 6,878
Change in fair value of warrants	9,978
Fair value of warrants exercised	(10,013)
Fair value of warrants expired	(358)
Balance as of September 30, 2010	$ 6,485

For the three months ended September 30, 2010, the change in the fair value of the warrant liability of $0.7 million was recorded as other income and for the nine months ended September 30, 2010, the net change in the fair value of the warrant liability of $9.6 million, was recorded as other expense in the accompanying unaudited condensed consolidated statements of operations.

The Company estimates the fair value of the warrant liability utilizing the Monte Carlo Simulation method. The use of this method assumes multiple probabilities. The following additional assumptions were used in the Monte Carlo Simulation model to determine the fair value of the warrant liability:

	September 30, 2010	December 31, 2009
Risk-free interest rate	0.27% - 0.64 %	0.06% - 2.69 %
Expected volatility	73.3% - 97.3 %	62.8% - 90.6 %
Expected life (in years)	0.75 – 3.25	0.25 – 4.0
Expected dividend yield	0 %	0 %

Note 4: Receivables

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

The Company determines the allowance for doubtful accounts by considering a number of factors, including the length of time the trade accounts receivable are past due, historical experience, the customer's current ability to pay its obligations, and the condition of the general economy and the industry as a whole. The Company will record a specific reserve for individual accounts when the Company becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, the Company would further adjust estimates of the recoverability of receivables.

Receivables consisted of the following (in thousands):

	September 30,	December 31, 2009

	2010 (unaudited)	
Accounts receivable	$ 5,615	$ 5,147
Less allowance for doubtful accounts	(384)	(584)
Net receivables	$ 5,231	$ 4,563

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Note 5: Net Income (Loss) per Common Share - Restated

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

In accordance with ASC 260, entities that have issued securities other than common stock that participate in dividends with the common stock ("participating securities") are required to apply the two-class method to compute basic EPS. The two-class method is an earnings allocation method under which EPS is calculated for each class of common stock and participating security as if all such earnings had been distributed during the period. On December 22, 2008, the Company issued Convertible Preferred Stock – Series B which participates in dividends with the Company's common stock and is therefore considered to be a participating security. However, the participating convertible preferred stock is not required to absorb any net loss. Thus, the Company calculates EPS using the two-class method. The Company does not intend to pay dividends on its common or preferred stock.

The Company uses the more dilutive method of calculating the diluted earnings per share, either the two class method or "if-converted" method. Under the "if-converted" method, the convertible preferred stock is assumed to have been converted into common shares at the beginning of the period.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share and per share data):

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS						
Net Income (Loss)	$ 3,551			$ (2,125)		
Income (loss) allocated to participating securities	$ 979			$ —		
Income (loss) allocated to common shares	$ 2,572	19,883,029	$ 0.13	$ (2,125)	16,513,101	$ (0.13)
Diluted EPS						
Less: Change in fair value of warrant liability allocated to common shares	524			—		
Diluted potential common shares		4,361,448			—	
Income (loss) allocated to common shares	$ 2,048	24,244,477	$ 0.08	$ (2,125)	16,513,101	$ (0.13)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009

	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS						
Net Loss	$ (5,000)			$ (3,456)		
Loss allocated to participating securities	$ —			$ —		
Loss allocated to common shares	$ (5,000)	18,781,185	$ (0.27)	$ (3,456)	16,133,646	$ (0.21)
Diluted EPS						
Diluted potential common shares		—			—	
Loss allocated to common shares	$ (5,000)	18,781,185	$ (0.27)	$ (3,456)	16,133,646	(0.21)

For the three months ended September 30, 2010, the Company has excluded stock options and warrants to acquire 1,271,817 of the Company's common stock since their effect would be anti-dilutive. For the nine months ended September 30, 2010, the Company has excluded options, warrants and convertible preferred stock to acquire 16,020,727 of its common stock since their effect would be anti-dilutive.

For the three and nine months ended September 30, 2009, the Company has excluded options, warrants and convertible preferred stock to acquire 19,742,737 of its common stock since their effect would be anti-dilutive.

Note 6: Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. The Company regularly reviews inventory quantities on hand, future purchase commitments with the Company's suppliers, and the estimated utility of the inventory. If the Company review indicates a reduction in utility below carrying value, the inventory is reduced to a new cost basis.

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

	September 30, 2010 (unaudited)	December 31, 2009
Raw materials	$ 752	$ 806
Work in process	436	709
Finished goods	483	664
Total inventory	$ 1,671	$ 2,179

Note 7: Prepaid Expenses and Other Current Assets

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

	September 30, 2010 (unaudited)	December 31, 2009
Vendor prepayments	$ 32	$ 266
Other prepaid expenses *	567	421
Total prepaid expenses and other current assets	$ 599	$ 687

*No individual amounts greater than 5% of current assets.

Note 8: Debt

Effective September 1, 2010, the Company renewed its credit facility with Access Business Finance, LLC (“Access”) under which the Company may borrow up to a maximum of $3 million based on a borrowing base equivalent of 75% of eligible accounts receivable. The interest on the line of credit is equal to the Prime Rate plus 4.00% but may not be less than 7.25% with a minimum monthly interest payment of $5,000. The term of the agreement with Access is for one year and automatically renews for successive one year terms unless, at least 60 days prior to the end of the current term, the Company gives Access prior written notice of its intent not to renew or if Access, at least ten days prior to the end of the current term, gives the Company written notice of its intent not to renew. The Company’s obligations under the agreement are secured by its assets. The Company paid $30,000 in annual loan fees to Access which were charged to prepaid expenses and amortized over the one year term. As of September 30, 2010, $2,500 had been amortized to interest expense. As of September 30, 2010, the Company had not borrowed on its line of credit.

Note 9: 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, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of revenue	$ 28	$ 25	$ 155	$ 111
Research and development	23	39	151	165
Selling, general and administrative	376	317	1,071	650
Total stock compensation expense	$ 427	$ 381	$ 1,377	$ 926

At September 30, 2010, total unrecognized compensation costs related to stock options was approximately $0.4 million, net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures and is expected to be recognized over a weighted average period of approximately 1.3 years.

Options granted to non-employees are measured at the grant date using a fair value options pricing model and remeasured to the current fair market value at each reporting period as the underlying options vest and services are rendered. There were no options granted to consultants in the three and nine months ended September 30, 2010. For the nine months ended September 30, 2009, there were 60,000 options granted to consultants. In May 2009, there were 60,000 options granted to consultants, of which the unvested options were remeasured to the current fair market value at September 30, 2010. The following assumptions were used in the Black-Scholes option pricing model to determine the fair value of stock options granted: dividend yield – 0%; risk free interest rates – 0.64% to 1.70%; expected volatility – 68.4% to 84.1%; and expected term – 3 years.

During the three and nine month periods ended September 30, 2010, there were 236,200 and 853,085 stock options, respectively, granted to employees and directors. During the nine month period ended September 30, 2009, there were 411,600 and 1,278,841 stock options granted to employees and directors. The following key assumptions were used in the Black-Scholes option pricing model to determine the fair value of stock options granted:

	For the Nine Months Ended September 30,	
	2010	2009
Dividend yield	0%	0 %
Risk free interest rates	1.31 to 2.57%	2.02 to 2.51 %
Expected volatility	80.6 to 86.9%	80.3 to 86.4 %
Expected term (in years)	3.5 to 5.5	4.0 to 5.5

We have not declared or paid any dividends and do not currently expect to do so in the near future. The risk-free interest rate used in the Black-Scholes option pricing model is based on the implied yield currently available on U.S. Treasury securities with an equivalent term. Expected volatility is based on the weighted average historical volatility of the Company's common stock for the most recent five year period. The expected term of options represents the period that our stock-based awards are expected to be outstanding and was determined based on historical experience and vesting schedules of similar awards.

For the nine month period ended September 30, 2010, 10,500 options were granted to employees from the 2008 Plan with a fair value of approximately $12 thousand and 842,585 options were granted to employees and directors from the 2003 Plan with a fair value of approximately $1.4 million. The weighted average fair value per share for options granted in the first nine months of 2010 was $1.67.

A summary of the Company's stock option activity for the nine months ended September 30, 2010 is presented in the following tables:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	2,817,574	$ 1.33		
Options granted	853,085	2.59		
Options exercised	(174,794)	1.84		
Options forfeited	—			
Options cancelled	(71,919)	3.11		
Outstanding at September 30, 2010	3,432,946	$ 1.58	6.18	$ 5,806,112
Vested or expected to vest at September 30, 2010 (1)	3,388,476	$ 1.72	6.18	$ 5,149,400
Exercisable at September 30, 2010	2,917,243	$ 1.52	6.25	$ 5,149,400

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

		Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercisable Price
$	0.34 - $0.98	1,160,340	5.67	$ 0.82	1,146,212	$ 0.82
$	1.00 - $1.51	1,185,938	6.42	1.20	1,030,400	1.22
$	1.80 - $1.94	411,341	6.32	1.94	194,519	1.94
$	2.60 - $3.92	639,327	6.74	3.05	519,912	3.04
$	5.80 - $22.50	27,000	1.51	11.00	26,200	10.97
		3,432,946	6.18	$ 1.58	2,917,243	$ 1.52

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. There were 3,206,745 options in-the-money at September 30, 2010. The Company's closing stock price was $3.19 as of September 30, 2010. The Company issues new shares of common stock upon exercise of stock options.

Note 10: Shareholders' Equity

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

The Company has designated 10,000 shares of the Company's preferred stock as Series B Convertible Preferred Stock ("the Preferred -Series B") at a stated value of $1,000 per share. The Preferred Stock – Series B is convertible into common stock at a conversion price of $0.75 per share. The Preferred Stock – Series B does not pay interest. The holders of the Preferred Stock – Series B are not entitled to receive dividends unless the Company's Board of Directors declares a dividend for holders of the Company's common stock and then the dividend shall be equal to the amount that such holder would have been entitled to receive if the holder converted its Preferred Stock – Series B into shares of the Company's common stock. Each share of Preferred Stock – Series B has voting rights equal to (i) the number of shares of Common Stock issuable upon conversion of such shares of Preferred Stock – Series B at such time (determined without regard to the shares of Common Stock so issuable upon such conversion in respect of accrued and unpaid dividends on such share of Preferred Stock) when the Preferred Stock – Series B votes together with the Company's Common Stock or any other class or series of stock of the Company and (ii) one vote per share of Preferred Stock when such vote is not covered by the immediately preceding clause. In the event of a liquidation, dissolution, or winding up of the Company, the Preferred Stock – Series B is entitled to receive liquidation preference before the Common Stock. The Company may at its option redeem the Preferred Stock – Series B by providing the required notice to the holders of the Preferred Stock – Series B and paying an amount equal to $1,000 multiplied by the number of shares for all of such holder's shares of outstanding Preferred Stock – Series B to be redeemed.

For the nine months ended September, 2010, there were 60 shares of Preferred Stock - Series B that were converted into 80,000 shares of common stock. As of September 30, 2010, there were 5,679 shares of Preferred Stock – Series B issued and outstanding.

Common Stock

For the three months ended September 30, 2010, the Company received approximately $201 thousand for 101,230 stock options exercised and for the nine months ended September 30, 2010, $322 thousand for 174,794 stock options exercised. For the three and nine months ended September 30, 2009, there were no stock options exercised. For the three months ended September 30, 2010, there were no warrants exercised. For the nine months ended September 30, 2010, there were 3,778,811 warrants exercised on a cashless basis resulting in 2,601,591 shares of common stock issued. For the nine months ended September 30, 2010, the Company received approximately $250 thousand for 100,000 warrants exercised. For the three and nine months ended September 30, 2009, there were 2.9 million warrants exercised on a cashless basis resulting in 726,910 shares of common stock issued.

For the three months ended September 30, 2010, no shares of common stock were issued for payment of services rendered and for the nine months ended September 30, 2010, 15,363 shares of common stock were issued for payment of $55 thousand for services rendered. For the three and nine months ended September 30, 2009, the Company issued approximately issued 42,857 and 498,533 shares of common stock, respectively, for payment of approximately $45 thousand and $304 thousand, respectively, for services rendered and to be rendered in the future. The Company recorded the fair value of the services rendered in selling, general and administrative expenses in the accompanying unaudited condensed consolidated financial statements for the nine months ended September 30, 2010 and the three and nine months ended September 30, 2009.

Note 11: Income Taxes

The Company's tax provision was $56,000 and $75,000, respectively, for the three and nine months ended September 30, 2010 which represents alternative minimum tax expense.

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The effect on deferred tax assets and liabilities of changes in tax rates will be recognized as income or expense in the period that the change occurs. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. Changes in circumstances, assumptions and clarification of uncertain tax regimes may require changes to any valuation allowances associated with the Company's deferred tax assets. Historically, the Company has incurred significant losses, however recently the Company has had a number of consecutive quarters of net income. Notwithstanding this positive trend, management does not believe that it is more likely than not that the benefits of the net operating losses carryforwards and other deferred tax assets will be realized. Accordingly, the Company has recognized the benefits of the deferred tax assets only to the extent of current taxable income.

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 12: Commitments and Contingencies

Royalty Payments

The Company signed a license agreement on March 29, 1999 with Eastman Kodak ("Kodak'), under which it was obligated to make royalty payments. Under this agreement, the Company must pay to Kodak a minimum royalty plus a certain percentage of net sales with respect to certain products, which percentages are defined in the agreement. The percentages are on a sliding scale depending on the amount of sales generated. Any minimum royalties paid will be credited against the amounts due based on the percentage of sales. The royalty agreement terminates upon the expiration of the issued patent which is the last to expire. The Company was notified that Kodak sold substantially all rights and obligations under the Company's license agreement to Global OLED Technology, owned by LG Electronics, as of December 30, 2009.

In late 2008, the Company began evaluating the status of its manufacturing process and the use of the IP associated with its license agreement. After this analysis and after making a few changes to its manufacturing process, the Company determined it was no longer using the IP covered under the license agreement. As the Company has determined it is no longer using the IP covered under the license agreement in its manufacturing process, the Company believes that it is no longer required to pay the minimum annual royalty payment of $125,000 and as such has not paid or accrued this amount in 2010. Going forward, the Company will continue to recognize the reduced royalty liability on sales of product produced prior to the manufacturing process change. There can be no assurance that the licensor will not challenge the Company's position.

As of September 30, 2010, the Company had approximately $49 thousand of inventory manufactured using the IP which if sold would result in royalty due of approximately $13 thousand. For the three and nine months ended September 30, 2010, the Company recorded approximately $1 thousand and $9 thousand, respectively, as royalty expense in its consolidated statements of operations and the associated liability on its consolidated balance sheets as the Company believes this is the amount due under the agreement which is based on applying the royalty formula to only the sold displays produced prior to the manufacturing process changes. Royalty expense was approximately $250 thousand for the nine months ended September 30, 2009.

Contractual Obligations

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

The Company's manufacturing facilities are leased from IBM in Hopewell Junction, New York. eMagin leases approximately 37,000 square feet to house its equipment for OLED microdisplay fabrication and for research and development, an assembly area and administrative offices. The lease expires May 31, 2014 and contains an option of extending the lease for five years. The corporate headquarters are located in Bellevue, Washington where eMagin leases approximately 5,100 square feet. The lease expires on August 31, 2014. Rent expense was approximately $283 thousand and $850 thousand, respectively, for the three and nine months ended September 30, 2010 and $336 thousand and $1.1 million, respectively, for the three and nine months ended September 30, 2009.

Note 13: Legal Proceedings

On March 17, 2010, Gary Jones, a former executive at the Company, filed a complaint for damages in the Superior Court of the State of Washington for King County (the "Complaint") against the Company and the Company's Chief Financial Officer. The Complaint alleges unspecified damages for failure to pay contractual payments and wages under Washington law (“the Washington Wage Claim”) and includes, among other claims, breach of contract, breach of the duty of good faith and fair dealing, promissory estoppel and misrepresentation.

On May 21, 2010, the court granted eMagin's motion to dismiss regarding the claim for misrepresentation and the Washington Wage Claim. The Chief Financial Officer's motion to dismiss was also granted relating to the following claims against him: the Washington Wage Claims, breach of contract, breach of promises of specific treatment in specific circumstances, breach of the duty of good faith and fair dealing, and promissory estoppel. With respect to the undismissed claims, the litigation is ongoing. The Company denies the allegations raised in the Complaint and intends to vigorously defend itself. There can be no assurance of the outcome of this matter.

Note 14: Employment Agreements

Pursuant to the Employment Agreement between the Company and Susan Jones (as previously amended and extended, the “Employment Agreement”), the term of Ms. Jones’ contract with the Company ended May 12, 2010 and her employment with the Company ceased at that time. Under the terms of the Employment Agreement between Susan Jones and the Company, Ms. Jones was entitled to a payment of eighteen months salary totaling approximately $473 thousand which payment was made as of June 30, 2010, incentive payments of 1% of revenue paid quarterly for a period of eighteen months, continuation of health insurance for twenty four months and a moving allowance for personal effects of $7.5 thousand. In addition, 12,696 unvested options immediately vested and became exercisable upon termination. As a result, the Company took a one time non-cash compensation charge of $28 thousand in the second quarter of 2010.

The Company accounted for the incentive payments under guidance that benefits provided in accordance with an agreement be recorded as a liability when it is probable that the employee is entitled to the benefits and the amount can be reasonably estimated. The Company estimated that $440 thousand is a reasonable estimate of the eighteen months of incentive payments and approximately $21 thousand is a reasonable estimate for the continuation of health insurance for twenty four months. In the second quarter of 2010, the Company recorded a liability of approximately $469 thousand which included the incentive payments, health insurance coverage, and the moving allowance in the condensed consolidated balance sheets and the associated expense as a sales, general and administrative expense in the condensed consolidated statements of operations. At September 30, 2010, the Company reviewed the estimates and assessed there was no material change.

Note 15: Restatement

In this Amended 10-Q, eMagin restated its previously issued condensed consolidated financial statements as of and for the three and nine months ended September 30, 2010 to correct errors in the accounting for certain warrants and the calculation of EPS. The Company determined that certain warrants ("Warrants") issued contain anti-dilution provisions which should have been accounted for as derivatives in accordance with the provisions of ASC 815. Authoritative guidance, effective January 1, 2009, provides an approach for companies to evaluate whether an equity-linked financial instrument or embedded feature in the instrument is indexed to its own stock for the purpose of evaluating the scope exception in ASC 815. Since the Company has issued Warrants which contain anti-dilution features for the holder, they are not considered indexed to the Company's own stock, and therefore, do not qualify for the scope exception in ASC 815 and must be accounted for as derivatives. Accordingly, beginning January 1, 2009, the Company should have reclassified the Warrants as liabilities and recorded the Warrants at estimated fair value at each reporting date, computed using the Monte Carlo Simulation approach. Thereafter, changes in the warrant liability from period to period should have been recorded in the condensed consolidated statements of operations. Effective January 1, 2009, the Company should have recorded a cumulative effect adjustment based on the grant date fair value of the outstanding Warrants and the change in fair value of the warrant liability from the issuance date through January 1, 2009.

On January 1, 2009, the Company computed fair value using the Monte Carlo Simulation approach. The fair value as of the issuance date was $15.1 million and as of January 1, 2009 was $2.1 million. Accordingly as of January 1, 2009, the Company recorded a warrant liability of $2.1 million, reduction in additional paid-in capital of $15.1 million and a reduction in accumulated deficit of $13.0 million. As of September 30, 2010, the Company computed the fair value of the warrant liability as $6.5 million, a decrease of $0.4 million since January 1, 2010. The change in the warrant liability of $0.4 million was comprised of the change in the fair value of the warrants of $10.0 million offset by the fair value of the expired warrants of $0.4 million and the fair value of the exercised warrants of $10.0 million. For the nine months ended September 30, 2010, the Company recorded other expense in the Condensed Consolidated Statements of Operations of $9.6 million, the change in fair value of the warrant liability net of the fair value of expired warrants. The Condensed Consolidated Statement of Changes in Shareholders' Equity, Condensed Consolidated Statements of Cash Flows, and Notes to the Condensed Consolidated Financial Statements have been restated where applicable to reflect the adjustments.

The accompanying quarterly financial statements have been restated to report the following Warrants as derivative liabilities measured at estimated fair value, calculated using the Monte Carlo Simulation approach:

				Fair Value of Warrants as of (in thousands):			
Warrant Issuance Dates	Number of Warrants Outstanding as of September 30, 2010	Exercise Price	Warrant Expiration Dates	January 1, 2010	March 31, 2010	June 30, 2010	September 30, 2010
October 25, 2004	—	$ 2.50	April 25, 2010	$ 34	$ 705	$ —	$ —
July 23, 2007	528,049	$ 1.03	July 21, 2011	2,222	4,888	1,339	1,140
July 23, 2007	1,000,000	$ 0.48	July 21, 2011	1,293	3,028	2,932	2,588
April 2, 2008	72,116	$ 1.13	April 2, 2013	1,041	1,579	217	175
December 22, 2008	1,000,000	$ 1.03	December 22, 2013	2,288	5,339	2,720	2,582

Total Fair Value	$ 6,878	$ 15,539	$ 7,208	$ 6,485

The table below is a reconciliation of the beginning and ending balances for the warrant liability:

	Number of Warrants	Warrant Issuance Dates	Fair Value of Warrants (in thousands)
Balance as of January 1, 2010			$ 6,878
Change in fair value of warrants			9,497
Fair value of warrants exercised	429,331	July 23, 2007	(489)
Fair value of warrants exercised	240,386	April 2, 2008	(347)
Balance as of March 31, 2010			$ 15,539
Change in fair value of warrants			1,204
Fair value of warrants expired	330,477	October 25, 2004	(358)
Fair value of warrants exercised	319,524	October 25, 2004	(475)
Fair value of warrants exercised	1,533,332	July 23, 2007	(4,189)
Fair value of warrants exercised	480,771	April 2, 2008	(1,501)
Fair value of warrants exercised	875,467	December 22, 2008	(3,012)
Balance as of June 30, 2010			$ 7,208
Change in fair value of warrants			(723)
Balance as of September 30, 2010			$ 6,485

Additionally, under ASC 260, “Earnings Per Share”, entities that have issued securities other than common stock that participate in dividends with the common stock (“participating securities”) are required to apply the two-class method to compute basic EPS. The two-class method is an earnings allocation method under which EPS is calculated for each class of common stock and participating security as if all such earnings had been distributed during the period. However, the participating convertible preferred stock is not required to absorb any net loss. The Company has Convertible Preferred Stock - Series B which participates in dividends with the Company’s common stock and therefore the Company should have calculated EPS using the two-class method. The restated condensed consolidated financial statements reflect EPS calculated using the two-class method.

The following tables summarize the effects of the restatement on the specific items presented in the Company’s historical condensed consolidated financial statements previously included in the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010:

Condensed Consolidated Balance Sheet (in thousands)	September 30, 2010 (As previously reported)	September 30, 2010 (As restated)
Warrant liability	$ —	$ 3,728
Total current liabilities	4,785	8,513
Warrant liability	—	2,757

Total liabilities	$ 4,785	$ 11,270
Shareholders’ equity:		
Additional paid-in capital	$ 208,665	$ 205,372
Accumulated deficit	(192,290)	(195,482)
Total shareholders’ equity	$ 16,395	$ 9,910

Condensed Consolidated Statements of Operations	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
(in thousands except share and per share data)	(As previously reported)	(As restated)	(As previously reported)	(As restated)
Change in fair value of warrant liability	$ —	$ 723	$ —	$ (9,620)
Total other income (expense)	$ (19)	$ 704	$ (69)	$ (9,689)
Net income (loss)	$ 2,828	$ 3,551	$ 4,620	$ (5,000)
Income (loss) per share, basic	$ 0.14	$ 0.13	$ 0.25	$ (0.27)
Income (loss) per share, diluted	$ 0.09	$ 0.08	$ 0.15	$ (0.27)
Weighted average number of shares outstanding:				
Basic	19,883,029	19,883,029	18,781,185	18,781,185
Diluted	31,816,477	24,244,477	30,680,340	18,781,185

Condensed Consolidated Statements of Cash Flows	Nine Months Ended September 30, 2010	
(in thousands)	(As previously reported)	(As restated)
Net income (loss)	$ 4,620	$ (5,000)
Change in fair value of warrant liability	—	(9,620)
Net cash provided by operating activities	$ 6,608	$ 6,608

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

Statement of Forward-Looking Information

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

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

Restatement of Previously Issued Condensed Consolidated Financial Statements

In this Amendment No. 1 we have restated our previously issued management’s discussion and analysis of financial condition and results of operations, condensed consolidated financial statements and related disclosures for the quarter ended September 30, 2010 for the following:

- To correct errors in the accounting for certain warrants. Specifically, we previously classified as equity instruments warrants that should have been classified as derivative liability instruments based on the terms of the warrants and the applicable accounting guidance.

- To correct an error in the calculation of earnings per share (“EPS”). We issued Preferred Stock – Series B which participates in dividends with our common stock: as a result, we should have used the two-class method for calculating EPS.

Overview

We design and manufacture miniature displays, which we refer to as OLED-on-silicon-microdisplays, and microdisplay modules for virtual imaging, primarily for incorporation into the products of other manufacturers. Microdisplays are typically smaller than many postage stamps, but when viewed through a magnifier they can contain all of the information appearing on a high-resolution personal computer screen. Our microdisplays use organic light emitting diodes, or OLEDs, which emit light themselves when a current is passed through the device. Our technology permits OLEDs to be coated onto silicon chips to produce high resolution OLED-on-silicon microdisplays.

We believe that our OLED-on-silicon microdisplays offer a number of advantages in near to the eye applications over other current microdisplay technologies, including lower power requirements, less weight, fast video speed without flicker, and wider viewing angles. In addition, many computer and video electronic system functions can be built directly into the OLED-on-silicon microdisplay, resulting in compact systems with lower expected overall system costs relative to alternate microdisplay technologies.

We have developed a strong portfolio of our own patents, manufacturing know-how and technology to create high performance OLED-on-silicon microdisplays and related optical systems. We believe our technology and intellectual property portfolio, gives us a leadership position in OLED and OLED-on-silicon microdisplay technology. We believe that we are the only company to demonstrate publicly and market full-color small molecule OLED-on-silicon microdisplays.

Company History

As of January 1, 2003, we were no longer classified as a development stage company. We transitioned to manufacturing our product and have significantly increased our marketing, sales, and research and development efforts, and expanded our operating infrastructure. Currently, most of our operating expenses are labor related and semi-fixed.

CRITICAL ACCOUNTING POLICIES

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

Revenue 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, 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. Products sold directly to consumers have a thirty day right of return. Revenue on consumer products is deferred until the right of return has expired.

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). Contract costs include all direct material and labor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party.

Product Warranty

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

Use of Estimates

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

Fair Value of Financial Instruments - Restated

eMagin’s cash, cash equivalents, accounts receivable, short-term investments, and accounts payable are stated at cost which approximates fair value due to the short-term nature of these instruments. In addition, the long-term investments are stated at cost which approximates fair value. eMagin measures the fair value of our warrants based on the Monte Carlo Simulation approach.

Stock-based Compensation

eMagin maintains several stock equity incentive plans. The 2005 Employee Stock Purchase Plan (the "ESPP") provides our employees with the opportunity to purchase common stock through payroll deductions. Employees purchase stock semi-annually at a price that is 85% of the fair market value at certain plan-defined dates. As of September 30, 2010, the number of shares of common stock available for issuance was 300,000. As of September 30, 2010, the plan had not been implemented.

The 2003 Stock Option Plan (the"2003 Plan") provides for grants of shares of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. Under the 2003 plan, an ISO grant is granted at the market value of our common stock at the date of the grant and a non-ISO is granted at a price not to be less than 85% of the market value of the common stock. These options have a term of up to 10 years and vest over a schedule determined by the Board of Directors, generally over a five year period. The amended 2003 Plan provides for an annual increase in common stock available for issuance by 3% of the diluted shares outstanding on January 1 of each year for a period of 9 years which commenced January 1, 2005. For the three and nine months ended September 30, 2010, there were 236,200 and 842,585 options, respectively, granted from this plan.

The 2008 Incentive Stock Plan ("the 2008 Plan") adopted and approved by the Board of Directors on November 5, 2008 provides for the issuance of shares of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. The 2008 Plan has an aggregate of 2,000,000 shares. For the nine months ended September 30, 2010, 10,500 options were granted from this plan.

We account for the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors by estimating the fair value of stock awards at the date of grant using the Black-Scholes option valuation model. Stock-based compensation expense is reduced for estimated forfeitures and is amortized over the vesting period using the straight-line method. See Note 9 of the Condensed Consolidated Financial Statements – Stock Compensation for a further discussion on stock-based compensation.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 of the Condensed Consolidated Financial Statements in Item 1 for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition.

RESULTS OF OPERATIONS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2009

Revenues

Revenues for the three and nine months ended September 30, 2010 were approximately $8.3 million and $22.5 million, respectively, as compared to approximately $6.1 million and $17.1 million, respectively, for the three and nine months ended September 30, 2009, an increase of approximately 36% and 32%, respectively.

For the three and nine months ended September 30, 2010, product revenue increased approximately $1.7 million or 32% and $3.3 million or 23%, respectively, as compared to the three and nine months ended September 30, 2009 which was primarily a result of an increase in customer demand for our OLED microdisplays. For the three and nine months ended September 30, 2010, contract revenue increased approximately $0.5 million or 56% and $2.1 million or 84%, respectively, as compared to the three and nine months ended September 30, 2009 which was a result of an increase in the number of active projects in the first nine months of 2010 as compared to the first nine months of 2009.

Cost of Goods Sold

Cost of goods sold is comprised of costs of product revenue and contract revenue. Cost of product revenue includes materials, labor and manufacturing overhead related to our products. Cost of contract revenue includes direct and allocated indirect costs associated with performing on contracts. Cost of goods sold for the three and nine months ended September 30, 2010 was approximately $2.8 million and $9.0 million, respectively, as compared to approximately $2.6 million and $7.3 million for the three and nine months ended September 30, 2009, an increase of approximately $0.2 million and $1.7 million, respectively, for the three and nine months ended September, 2010.

Cost of goods sold as a percentage of revenues was 34% and 40%, respectively, for the three and nine months ended September 30, 2010 as compared to 43% for both the three and nine months ended September 30, 2009.

The following table outlines product, contract and total gross profit and related gross margins for both the three and nine months ended September 30, 2010 and 2009 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Product revenue gross profit	$4,831	$3,264	$11,236	$8,743
Product revenue gross margin	70 %	62 %	63 %	60 %
Contract revenue gross profit	$637	$236	$2,289	$1,015

Contract revenue gross margin	48 %	28 %	49 %	40 %
Total gross profit	$5,468	$3,500	$13,525	$9,758
Total gross margin	66 %	57 %	60 %	57 %

The gross profit for the three and nine months ended September 30, 2010 was approximately $5.5 million and $13.5 million as compared to approximately $3.5 million and $9.8 million for the three and nine months ended September 30, 2009, an increase of $2.0 million and $3.7 million, respectively. Gross margin was 66 % for the three months ended September 2010 up from 57% for the three months ended September 30, 2009. Gross margin was 60 % for the nine months ended September 2010 up from 57% for the nine months ended September 30, 2009.

The product gross profit for the three and nine months ended September 30, 2010 was approximately $4.8 million and $11.2 million as compared to approximately $3.3 million and $8.7 million for the three and nine months ended September, 2009, an increase of $1.5 million and $2.5 million, respectively. Product gross margin was 70% for the three months ended September 30, 2010 up from 62% for the three months ended September 30, 2009. Product gross margin was 63% for the nine months ended September 30, 2010 up from 60% for the nine months ended September 30, 2009. The increase in product gross profit and gross margin was due to higher sales volumes and improved product mix resulting in a higher average selling price in conjunction with lower display costs which were a result of the of increased production volume and improved manufacturing utilization. The higher average selling price was a result of the mix of products sold which included custom displays with a higher sales price.

The contract gross profit for the three and nine months ended September 30, 2010 was approximately $0.6 million and $2.3 million as compared to $0.2 million and $1.0 million for the three and nine months ended September 30, 2009, an increase of $0.4 million and $1.3 million, respectively. Contract gross margin was 48% for the three months ended September 30, 2010 up from 28% for the three months ended September 30, 2009. Contract gross margin was 49% for the nine months ended September 30, 2010 up from 40% for the nine months ended September 30, 2009. The contract gross margin is dependent upon the mix of costs, internal versus external third party costs, with external third party costs causing a lower gross margin and reducing the contract gross profit.

Operating Expenses

Research and Development. Research and development expenses include salaries, development materials and other costs specifically allocated to the development of new microdisplay products, OLED materials and subsystems. Research and development expenses for the three months ended September 30, 2010 and 2009 were both approximately $0.5 million. Research and development expenses for the nine months ended September 30, 2010 were approximately $1.9 million as compared to $1.4 million for the nine months ended September 30, 2009, an increase of approximately $0.5 million. The increase for the nine months ended September 30, 2010 was primarily related to an increase in internal research and development of $0.4 million and personnel expense of $0.1 million.

Selling, General and Administrative. Selling, general and administrative expenses consist principally of salaries, including severance, and fees for professional services, legal fees in connection with litigation, as well as other marketing and administrative expenses. Selling, general and administrative expenses for the three and nine months ended September 30, 2010 were approximately $2.1 million and $6.9 million as compared to approximately $1.8 million and $5.1 million for the nine months ended September 30, 2009. The increase of approximately $0.3 million for the three months ended September 30, 2010 was primarily related to increased personnel costs including non-cash compensation. The increase of approximately $1.8 million for the nine months ended September 30, 2010 was primarily related to severance expense of $1.0 million, personnel costs including non-cash compensation of $0.8 million, and legal fees of $0.4 million offset by a decrease in professional services of $0.2 million and recruiting expenses of $0.2 million.

Other Income (Expense), net. Other income (expense), net consists primarily of interest income earned on investments, interest expense related to the secured debt, income from the licensing of intangible assets and income and expense applicable to the change in fair value of the warrant liability.

For the three and nine months ended September 30, 2010, interest expense was approximately $21 thousand and $79 thousand, respectively, as compared to approximately $76 thousand and $417 thousand, respectively, for the three and nine months ended September 30, 2009. For the three and nine months ended September 30, 2010, the majority of the interest expense was associated with debt. The breakdown of the interest expense for the three and nine month period in 2009 is as follows: interest expense associated with debt of approximately $7 thousand and $48 thousand, respectively, and the amortization of the deferred costs associated with the debt was $62 thousand and $362 thousand, respectively. The decrease in interest expense for the three and nine months ended September 30, 2010 as compared to the three and nine months ended September 30, 2009 was primarily a result of the Company not having any outstanding debt.

Other income for the three and nine months ended September 30, 2010 was approximately $2 thousand and $10 thousand as compared to $1 thousand and $41 thousand for the three and nine months ended September 30, 2009. The other income for the three and nine months ended September 30, 2010 was interest income of approximately $2 thousand and $4 thousand, respectively, and $0 and $6 thousand, respectively, from equipment salvage. The other income for the three and nine months ended September 30, 2009 was interest income of approximately $1 thousand and $3 thousand, respectively, and $0 and $38 thousand, respectively, for a settlement of a liability.

Change in Fair Value of Warrant Liability. In accordance with ASC 815, adopted January 1, 2009, certain warrants previously classified within equity were reclassified as liabilities. As a result of this reclassification, the accounting guidance requires revaluation of this liability every reporting period. The fair value of the liability at September 30, 2010 and 2009 was measured by using the Monte Carlo Simulation model. The revaluation resulted in income of approximately $0.7 million for the three months ended September 30, 2010 and a charge of approximately $9.6 million for the nine months ended September 30, 2010 as compared to a charge of approximately $3.3 million and approximately $6.4 million for the three and nine months ended September 30, 2009, respectively. This revaluation resulted in non-cash changes to other income (expense) and had no impact on our cash balances, operations, or operating income.

Net Income (Loss)

For the three months ended September 30, 2010, net income was approximately $ 3.6 million and for the nine months ended September 30, 2010, the net loss was approximately $5.0 million as compared to the net loss of approximately $2.1 million and approximately $3.5 million, respectively, for the three and nine months ended September 30, 2009. Net loss for the nine months ended September 30, 2010 would have been approximately $4.0 million excluding the $1.0 million one time severance charge.

Liquidity and Capital Resources

As of September 30, 2010, we had approximately $10.3 million of cash, cash equivalents, and investments in certificates of deposit (“CDs”). As of September 30, 2010, we had approximately $6.7 million of cash and cash equivalents as compared to $5.3 million as of December 31, 2009. The change in cash of $1.4 million was primarily due to cash provided by operations of approximately $6.6 million and financing activities of approximately $0.6 million offset by cash used for investing activities of approximately $5.8 million.

Cash flow provided by operating activities during the nine months ended September 30, 2010 was approximately $6.6 million, attributable to our net loss of approximately $5.0 million offset by non-cash expenses of approximately $10.8 million and approximately $0.8 million from the change in operating assets and liabilities. Cash flow provided by operating activities during the nine months ended September 30, 2009 was approximately $3.5 million, attributable to our net loss of approximately $3.5 million, change in operating assets and liabilities of approximately $0.6 million offset by non-cash expenses of approximately $7.6 million.

Cash used in investing activities during the nine months ended September 30, 2010 was approximately $5.8 million to purchase equipment of $2.3 million and purchase certificates of deposit (“CDs”) of $3.5 million. Cash used in investing activities during the nine months ended September 30, 2009 was approximately $0.5 million to purchase equipment.

Cash provided by financing activities during the nine months ended September 30, 2010 was approximately $0.6 million from the exercise of stock options and warrants. Cash used by financing activities during the nine months ended September 30, 2009 was approximately $1.7 million to pay down the line of credit.

Our business continues to experience revenue growth. This trend, if it continues, may result in higher accounts receivable levels and may require increased production and/or higher inventory levels. We believe our current liquidity position, where we have approximately $10.3 million of cash, cash equivalents, and investments – held to maturity on hand as of September 30, 2010, together with our available line of credit and the prospects for continued generation of cash from operations are adequate for our business needs over the next twelve months. We anticipate that we will not require additional funds over the next twelve months other than perhaps discretionary capital spending. If unanticipated events arise during the next twelve months, we may need additional funds. If additional funds are required and if we are unable to obtain sufficient funds we may have to reduce the size of our organization and/or be forced to reduce and/or curtail our production and operations, all of which could have a material adverse impact on our business prospects.

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

(a) 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 (the “Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Restatement of Condensed Consolidated Financial Statements

On August 10, 2011, the Audit Committee of the Board of Directors (“Audit Committee”) in consultation with the Company’s management concluded that the financial statements included in the Company’s Annual Reports issued on Form 10-K for the years ended December 31, 2009 and 2010 and quarterly reports issued on Form 10-Q for the quarters ended March 31, June 30, and September 30, 2009; March 31, June 30, and September 30, 2010; and March 31, 2011 did not use the proper method to calculate earnings per share and as a result, should not be relied upon. On August 15, 2011, after consulting with the Audit Committee on August 10, 2011 and with the Company's auditors and former auditors, management concluded that the Company did not properly account for certain common stock warrants as liabilities and as a result, the financial statements, as mentioned above, should not be relied upon. The Audit Committee authorized and directed Company's management to restate its consolidated financial statements for the above mentioned periods. As a result of a deficiency in our internal control over financial reporting relating to the accounting for common stock warrants, as of the end of the period covered by this report our management has reassessed the effectiveness of our disclosure controls and procedures and has determined that our disclosure controls and procedures were not effective.

Remediation Plan

Since the determination regarding this deficiency, we have devoted significant effort and resources to remediation and improvement of our internal control over financial reporting. While we had processes in place to identify and apply developments in accounting standards, we enhanced these processes to better evaluate our research of the nuances of complex accounting standards. Our enhancements included retaining a third party consultant, who is a technical accounting professional, to assist us in the interpretation and application of new and complex accounting guidance. Additionally, we have improved training of accounting personnel and communication among our internal staff, our legal team and our consultant. Management will continue to review and make necessary changes to the overall design of our internal control environment.

(b) Changes in Internal Controls.

Except as stated above, there were no changes in our internal controls over financial reporting during the fiscal quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

On March 17, 2010, Gary Jones, a former executive at the Company filed a complaint for damages in the Superior Court of the State of Washington for King County (the "Complaint") against the Company and the Company's Chief Financial Officer. The Complaint alleges unspecified damages for failure to pay contractual payments and wages under Washington law (“the Washington Wage Claim”) and includes, among other claims, breach of contract, breach of the duty of good faith and fair dealing, promissory estoppel and misrepresentation.

On May 21, 2010, the court granted eMagin's motion to dismiss regarding the claim for misrepresentation and the Washington Wage Claim. The Chief Financial Officer's motion to dismiss was also granted relating to the following claims against him: the Washington Wage Claims, breach of contract, breach of promises of specific treatment in specific circumstances, breach of the duty of good faith and fair dealing, and promissory estoppel. With respect to the undismissed claims, the litigation is ongoing. The Company denies the allegations raised in the Complaint and intends to vigorously defend itself. There can be no assurance of the outcome of this matter.

ITEM 1A. Risk Factors

In addition to other information set forth in this Report, you should carefully consider the risk factors previously disclosed in “Item 1A to Part 1” of our Annual Report on Form 10-K /A for the year ended December 31, 2009. There were no material changes from the risk factors during the nine months ended September 30, 2010.

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

Pursuant to various cashless warrant exercises, the Company issued 2,601,591 shares of common stock in the nine months ended September 30, 2010. In addition, the Company received proceeds of $250 thousand from a warrant exercise and issued 100,000 shares of common stock in the nine months ended September 30, 2010. In connection with the foregoing, the Company relied upon the exemption from securities registration afforded by Rule 506 of Regulation D as promulgated by the SEC under the Securities Act of 1933, as amended (the “Securities Act”) and/or Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. (Removed and Reserved)

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

31.1	Certification by Chief Executive Officer pursuant to Sarbanes Oxley Section 302 (1)

31.2	Certification by Chief Financial Officer pursuant to Sarbanes Oxley Section 302 (1)
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (1)
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (1)

(1) Filed 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 on this 7th day of October 2011.

eMAGIN CORPORATION

By:	/s/ Andrew G. Sculley Andrew G. Sculley Chief Executive Officer (Principal Executive Officer)
By:	/s/ Paul Campbell Paul Campbell Chief Financial Officer (Chief Accounting Officer and Principal Financial Officer)