EMAGIN CORP
Form 10-Q/A
June 18, 2002

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2002

[ ] Transition report pursuant section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____________ to ________________

eMAGIN CORPORATION
(Exact name of registrant as specified in its charter)

Commission file number: 000-24757

DELAWARE	56-1764501
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

(845) 892-1900
(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Not applicable

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 15, 2002 the Registrant had 30,294,980 shares of Common Stock outstanding.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (check one): Yes [ ] No [X]

The undersigned registrant hereby amends Item 1 (Consolidated Financial Statements) of Part I (Financial Information) of its Form 10-Q filed with the Securities and Exchange Commission on May 15, 2002, for the quarter ended March 31, 2002, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

The following change has been made to the Unaudited Consolidated Statements of

Cash Flows for the three months ended March 31, 2002, and March 21, 2001, and for the period from inception (January 23, 1996) to March 31, 2002.

For the three months ended March 31, 2002, versus March 31, 2001, discussion of prepaid expenses and other current assets (Page 5):

	Three-months ended March 31, 2002	Three-months ended Marcy 31, 2001
Prepaid expenses and other current assets	(217,538)	(546,863)

The entire text of Item 1, reflecting the above correction, is set forth in the pages attached hereto.

2

Item 1 Consolidated Financial Statements

eMAGIN CORPORATION
(a development stage corporation)
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 20
	(unaudited
CURRENT ASSETS:	
Cash and cash equivalents	$1,666,
Contract receivables	166,
Unbilled costs and estimated profits on contracts in progress	101,
Inventory	65,
Prepaid expenses and other current assets	631,
Total current assets	2,630,
Equipment and leasehold improvements, net of accumulated depreciation of $1,234,014 and $1,122,989, respectively	1,140,
Goodwill and purchased intangibles, net	1,104,
Other long-term assets	90,
Total assets	$ 4,965,
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$4,158,
Accrued Payroll	851,
Current portion of long-term debt	1,673,
Other short-term debt	1,268,
Advanced payments on contracts to be completed	275,
Other current liabilities	356,
Total current liabilities	8,585,

LONG-TERM DEBT	2,337,
SHAREHOLDERS' EQUITY:	
Common Stock, par value $0.001 per share	
Shares authorized - 100,000,000	
Shares issued and outstanding - 29,012,927 and 25,171,183	29,
Additional paid-in capital	119,000,
Deferred compensation	(1,812,
Deficit accumulated during the development stage	(123,174,
Total shareholders' equity	(5,957,
Total liabilities and shareholders' equity	$ 4,965,

See selected notes to financial statements

3

eMAGIN CORPORATION
(a development stage corporation)
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three-Months ended March 31, 2002	Three-Months ended March 31, 20
CONTRACT REVENUE:		
Contract revenue	$ 14,108	$ 2,030,2
Product sales	143,919	
Total revenue	158,027	2,030,2
COSTS AND EXPENSES:		
Research and development, net of funding under cost sharing arrangements of $26,665, $201,467, $358,760 and $2,910,597, respectively	2,144,766	3,441,1
Amortization of purchased intangibles	552,415	5,851,69
Acquired in-process research and development	-	
Write-down of goodwill and purchased intangibles	-	
Non-cash charge for stock-based compensation	1,336,926	735,9
Selling, general and administrative	1,635,048	1,775,4
Total costs and expenses, net	5,669,155	11,804,1
Non cash interest expense	(936,132)	(903,2
OTHER (EXPENSE)/ INCOME	(42,254)	968,8
OTHER (EXPENSE)/ INCOME, net	(978,386)	65,5
Loss before provision for income taxes	(6,489,514)	(9,708,4
PROVISION FOR INCOME TAXES	-	

Net loss	$ (6,489,514)	$ (9,708,4
Basic and diluted net loss per common share	$ (0.24)	$ (0.
Basic and diluted weighted average common shares outstanding	26,669,919	25,069,1

See selected notes to financial statements.

eMAGIN CORPORATION
(a development stage corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three-Months ended March 31, 200
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	($6,489,514)
Adjustments to reconcile net loss to net cash used in operating activities-	
Depreciation and amortization	663,440
Write-down of goodwill and purchased intangibles	-
Loss on sale of assets	-
Non-cash charge for stock based compensation	1,336,926
Non-cash interest related charges	936,132
Non-cash charge for services received	307,657
Acquired in-process research and development	-
Changes in operating assets and liabilities, net of acquisition:	
Contract receivables	318,705
Unbilled costs and estimated profits on contracts in progress	191,953
Prepaid expenses and other current assets	(217,538)
Other long-term assets	4,226
Advanced payment on contracts to be completed	(13,583)
Accounts payable, accured expenses and accrued payroll	757,605
Net cash used in operating activities	(2,203,991)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of equipment	(84,745)
Net proceeds from acquisition	-
Net cash used in investing activities	(84,745)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from sales of common stock, net of issuance costs	2,465,517
Proceeds from exercise of stock options and warrants	887
Proceeds from short term debt	1,000,000

Proceeds from long term debt	-
Payments of long term debt and capital leases	(250,000)
Net cash provided by financing activities	3,216,404
NET INCREASE IN CASH AND CASH EQUIVALENT'S	927,668
CASH AND CASH EQUIVALENTS, beginning of period	738,342
CASH AND CASH EQUIVALENTS, end of period	$ 1,666,010

	Period from inception January 23, 1996 to March 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	($123,174,066)
Adjustments to reconcile net loss to net cash used in operating activities-	
Depreciation and amortization	40,606,422
Write-down of goodwill and purchased intangibles	32,145,863
Loss on sale of assets	97,713
Non-cash charge for stock based compensation	6,717,757
Non-cash interest related charges	2,158,694
Non-cash charge for services received	423,808
Acquired in-process research and development	12,820,000
Changes in operationg assets and liabilities, net of acquisition:	
Contract receivables	(34,459)
Unbilled costs and estimated profits on contracts in progress	518,244
Prepaid expenses and other current assets	(390,780)
Other long-term assets	(79,690)
Advanced payment on contracts to be completed	384,760
Accounts payable, accured expenses and accrued payroll	2,741,263
Net cash used in operating activities	(25,064,471)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of equipment	(1,352,607)
Net proceeds from acquisition	1,239,162
Net cash used in investing activities	(113,445)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from sales of common stock, net of issuance costs	23,746,517
Proceeds from exercise of stock options and warrants	28,496
Proceeds from short term debt	5,875,000
Proceeds from long term debt	-
Payments of long term debt and capital leases	(2,806,087)
Net cash provided by financing activities	26,843,926
NET INCREASE IN CASH AND CASH EQUIVALENT'S	1,666,010
CASH AND CASH EQUIVALENTS, beginning of period	-
CASH AND CASH EQUIVALENTS, end of period	$ 1,666,010

See selected notes to financial statements.

eMAGIN CORPORATION
Selected Notes to Unaudited Consolidated Financial Statements

Note 1 - BASIS OF PRESENTATION

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Certain information or footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented. The results of operations for the period ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year.

Note 2 - NATURE OF BUSINESS

Fashion Dynamics Corporation (FDC) was organized January 23, 1996, under the laws of the State of Nevada. FDC had no active business operations other than to acquire an interest in a business. On March 16, 2000, FDC acquired FED Corporation ("FED") (the Merger). The merged company changed its name to eMagin Corporation (the "Company" or eMagin) (Note 3). eMagin is a developer and manufacturer of optical systems and microdisplays for use in the electronics industry. eMagin's wholly-owned subsidiary, Virtual Vision Inc., develops and markets microdisplay systems and optics technology for commercial, industrial and military applications. Following the Merger, the business conducted by the Company is the business conducted by FED prior to the Merger.

The Company continues to be a development stage company, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises", as it continues to devote substantially all of its efforts to establishing a new business, and it has not yet commenced its planned principal operations. Revenues earned by the Company to date are primarily related to research and development type contracts and are not related to the Company's planned principal operations of commercialization of products using organic light emitting diode (OLED) technology. eMagin Corporation is attempting to transition to becoming an operating company during 2002 with most of its future revenue to be based in product sales.

Note 3 - FED ACQUISITION

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock and approximately 3.9 million options and warrants to purchase common stock to FED shareholders. The total preliminary purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, $0.3 million of acquisition costs and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Under the purchase method of accounting, the assets and liabilities were recorded based upon their fair values at the date of acquisition.

Goodwill and other intangible assets acquired were previously amortized over their estimated useful lives of three years. In accordance with SFAS No. 2, "Accounting for Research and Development Costs," as clarified by Financial Accounting Standards Board Interpretation No. 4, amounts assigned to in-process research and

6

development were charged to expense as part of the allocation of purchase price. Accordingly, based on the results of an independent appraisal, the Company recognized a charge of approximately $12.8 million associated with the write-off of acquired in-process research and technology. The Company recognized this charge during the quarter ended September 30, 2000.

During the quarter ended September 30, 2001, the Company recorded an amortization and impairment write-down of its goodwill of approximately $38.0 million to reduce the carrying amount of the goodwill to its estimated fair value. The goodwill impairment charge was included in the unaudited consolidated statement of operations for the quarter ended September 30, 2001. An explanation of the impairment write down is detailed in the Management's Discussion and Analysis of Financial Condition and Results of Operations under Amortization of Purchased Intangibles.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method and defines criteria for recognition of acquired intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The Company adopted the provisions of SFAS No. 142 effective January 1, 2002 and is in the process of performing the required transitional fair value impairment test. Identified intangible assets not deemed to have indefinite lives continue to be amortized over a three year life. Accordingly, amortization expense of purchased intangibles of approximately $550,000 is included in the accompanying unaudited consolidated statement of operations for the three months ended March 31, 2002.

Note 4 - REVENUE AND COST RECOGNITION

The Company has historically earned revenues from certain of its research and development activities under both firm fixed-price contracts and cost-type contracts, including some cost-plus-fee contract. Revenues relating to firm fixed-price contracts are generally recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Revenues on cost-plus-fee contracts include costs incurred plus a portion of estimated fees or profits based on the relationship of costs incurred to total estimated costs. Contract costs include all direct material and labor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates.

Note 5 - RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred. To date, activities of the Company (and its predecessor) have included the performance of research and development under cooperative agreements with United States Government agencies. Funding from such research and development contracts is recognized as a reduction in operating expenses during the period in which the services are performed and related direct expenses are incurred.

Note 6 - NET LOSS PER COMMON SHARE

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

7

Note 7 - DEBT

On January 14, 2002, the Company entered into a $1.0 million bridge loan arrangement with a private investor (the "Investor") in connection with a secured note purchase agreement executed by the Company on November 27, 2001. This transaction increased the total amount of the secured convertible loan outstanding under this arrangement to $1,625,000, including amounts previously made available to the Company in connection with the November 27, 2001 secured note arrangement, net of repayments of $250,000 to certain investors who elected not to reinvest. The secured convertible notes accrue interest at a rate of 9.00% per annum and mature on August 30, 2002. Terms of the notes also include a fixed conversion rate of $0.5264 per share. The Company also granted warrants to purchase 921,161 shares of common stock with an exercise price of $0.5468 per share to the Investor. Such warrants are exercisable through January 2005. Certain investors of the November 27, 2002 financing who elected to remain in the new bridge loan arrangement received reset provisions of the previous conversion rate and warrant exercise prices to be equivalent to the terms granted to the new Investor.

The total of the intrinsic value of the warrants issued to the new Investor and the incremental intrinsic value of the repriced warrants of certain existing investors of approximately $480,000 has been recorded as original issue discount, resulting in a reduction in the carrying value of this debt. The original issue discount will be amortized into interest expense over the period of the debt. In the event the debt is converted prior to maturity, the remaining discount will be amortized into interest expense at the conversion date. For the three months ended March 31, 2002, approximately $120,000 has been amortized and is included in non-cash interest expense in the accompanying unaudited consolidated statements of operations.

In addition, based on the terms of the bridge loan arrangement, the conversion terms of the debt provide for a beneficial conversion feature. The total value of the beneficial feature of the new debt and the incremental value of the reset conversion feature of the existing debt of approximately $780,000 was recorded as non-cash interest expense in the accompanying unaudited consolidated statements of operations.

Note 8 - STOCKHOLDERS' EQUITY

The authorized common stock of the Company consists of 100,000,000 shares with a par value of $0.001 per share.

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

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock to FED shareholders, and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, based on the difference between the fair value and the exercise price of said equity instruments and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the fair value of assets acquired and liabilities assumed.

In January 2002, the Company negotiated settlement of amounts due to a related party for services previously rendered via issuance of 192,493 shares of common stock. As such, the Company recorded the fair value of the shares of approximately $135,000 in selling, general and administrative expenses in the accompanying unaudited consolidated statement of operations for the three months ended March 31, 2002.

On February 27, 2002, the Company completed a private placement of securities with several institutional and individual investors of 3,617,128 shares of common stock at a price per share of $0.6913, generating gross proceeds of approximately $2,500,000, less issuance costs of approximately $35,000. In connection with the financing arrangement, the Company issued to the investors warrants to purchase 1,446,852 shares of common stock of the Company at an exercise price of $0.7542 per share. Also, the Company issued to an institution warrants to purchase 36,164 shares of common stock in connection with a finder fee arrangement entered into between the two parties. Such warrants are exercisable through February 2005.

On March 4, 2002, the Company entered into an equity line of credit agreement with a private equity fund (the "Fund") whereby the Company has the option, but not the obligation, to sell shares of common stock to the Fund for a three-year period at a price per share, as defined. The agreement provides for certain minimum and maximum monthly amounts up to a maximum of $15 million and, in certain circumstances, up to $20 million.

In connection with the equity line of credit, the Company issued 30,000 shares of common stock to the Fund as compensation for certain services rendered in connection with the closing of the line of credit. As such, the Company recorded the fair value of the shares of approximately $31,000 in selling, general and administrative expenses for the three months ended March 31, 2002. Also, the Company granted warrants to purchase up to 150,000 shares of common stock of the Company at an exercise price of $0.8731 per share. Such warrants are exercisable through September 2005. The intrinsic value of said warrants of approximately $140,000 is included in selling, general and administrative expenses for the three months ended March 31, 2002.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

eMAGIN CORPORATION

Dated: June 18, 2002 By: /s/ Edward V. Flynn

Edward V. Flynn
Chief Financial Officer, Treasurer