TherapeuticsMD, Inc.
Form 424B5
March 15, 2013
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Filed Pursuant to Rule 424(b)(5)

Registration No. 333-186189

PROSPECTUS SUPPLEMENT

(To Prospectus dated February 5, 2013)

29,411,765 Shares

TherapeuticsMD, Inc.

Common Stock

We are offering 29,411,765 shares of our common stock. Our common stock is quoted on the OTCQB under the symbol TXMD. On March 14, 2013, the last reported sale price of our common stock on the OTCQB was $2.30 per share.

Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page S-6 of this prospectus supplement, the accompanying prospectus and in the documents incorporated by reference into this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$ 1.700	$ 50,000,001
Underwriting Discounts and Commissions	$ 0.119	$ 3,500,000
Proceeds to TherapeuticsMD, before expenses	$ 1.581	$ 46,500,001

Delivery of the shares of common stock is expected to be made on or about March 20, 2013. In addition, we have granted the underwriters an option for a period of 30 days to purchase up to an additional 4,411,765 shares of our common stock. If the underwriters exercise the option in full, the total underwriting discount payable by us will be $4,025,000 and the total proceeds to us, before expenses, will be $53,475,001.

Sole Book-Running Manager

Jefferies

Co-Manager

Noble Financial Capital Markets

Prospectus Supplement dated March 14, 2013

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We have not, and the underwriters have not, authorized anyone to provide you with different information than that contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectus that we have authorized for use in connection with this offering. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted or in which the person making that offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation. You should assume that the information in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents, regardless of the time of delivery of this prospectus supplement, the accompanying prospectus, or any related free writing prospectus, or any sale of a security. Our business, financial condition, results of operations and prospects may have changed since those dates. You should read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering, in their entirety before making an investment decision. You should also read and consider the information in the documents to which we have referred you in the section of this prospectus supplement entitled Incorporation of Certain Information by Reference.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus form part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. This document contains two parts. The first part consists of this prospectus supplement, which provides you with specific information about this offering. The second part, the accompanying prospectus, provides more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined. This prospectus supplement may add, update, or change information contained in the accompanying prospectus. To the extent that any statement we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus or any documents incorporated by reference herein or therein, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and such documents incorporated by reference herein and therein.

Unless the context otherwise requires, the terms Therapeutics, TXMD, Company, our company, we, us, or our refer to TherapeuticsM Nevada corporation, and its subsidiaries, VitaMedMD, LLC, a Delaware limited liability company, or VitaMed, and BocagreenMD, Inc., a Nevada corporation, or BocaGreenMD.

This prospectus supplement and the accompanying prospectus relate to the offering of shares of our common stock. Before buying any shares of our common stock offered hereby, we urge you to carefully read this prospectus supplement and the accompanying prospectus, together with the information incorporated herein and therein by reference as described under the headings Where You Can Find More Information and Incorporation of Certain Information by Reference. These documents contain important information that you should consider when making your investment decision. This prospectus supplement contains information about the common stock offered hereby and may add, update, or change information in the accompanying prospectus.

This prospectus supplement and the accompanying prospectus contain summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been or will be filed as exhibits to the registration statement of which this prospectus is a part or as exhibits to documents incorporated by reference herein, and you may obtain copies of those documents as described below under the headings Where You Can Find More Information and Incorporation of Certain Information by Reference.

The industry and market data and other statistical information contained in the documents we incorporate by reference are based on management s own estimates, independent publications, government publications, reports by market research firms or other published independent sources, and, in each case, are believed by management to be reasonable estimates. Although we believe these sources are reliable, we have not independently verified the information.

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CAUTIONARY STATEMENT ABOUT FORWARD LOOKING INFORMATION

This prospectus supplement, including the sections entitled Prospectus Supplement Summary, Risk Factors, and Business, the accompanying prospectus, and the documents incorporated by reference herein and therein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact contained in or incorporated by reference into this prospectus supplement or the accompanying prospectus, including statements regarding our future operating results and financial position, business strategy, and plans and objectives of management for future operations, are forward-looking statements. In many cases, you can identify forward-looking statements by terms such as may, should, expects, plans, anticipates, could, intends, target, projects, c believes, estimates, predicts, potential, or continue or the negative of these terms or other similar expressions.

The forward-looking statements contained in or incorporated by reference into this prospectus supplement or the accompanying prospectus reflect our views as of the date of this prospectus supplement about future events and are subject to risks, uncertainties, assumptions, and changes in circumstances that may cause our actual results, performance, or achievements to differ significantly from those expressed or implied in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, performance, or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, without limitation, those factors described in Risk Factors. Some of the key factors that could cause actual results to differ from our expectations include the following:

- our operating losses incurred since inception and anticipated for the foreseeable future;
- our ability to continue as a going concern;
- our ability to maintain or increase sales of our products;
- the ability of our products to produce the intended effects;
- our ability to develop and commercialize our proposed advanced hormone therapies;
- our estimates regarding our capital requirements and our ability to obtain additional financing;
- our lack of experience in bringing a drug to regulatory approval;
- the uncertainty of results from our clinical trials;
- delays, suspensions, or discontinuation of our clinical trials;
- our reliance on third parties to conduct our clinical trials and research and development;
- the effects of laws, regulations, and enforcement;

- our dependence on third-party manufacturers;
- our ability to gain and retain market acceptance for our products;
- our expectations with respect to the potential commercial value of our proposed products;
- the competitive nature of the industries in which we conduct our business;
- the availability of reimbursement from government authorities and health insurance companies for our products;
- the impact of product liability lawsuits;
- unfavorable publicity or lack of customer acceptance;
- our ability to use hazardous or biological materials in compliance with applicable law;
- our reliance on our executive officers and key personnel;
- our ability to expand our direct sales force;
- our dependence on certain customers and distribution channels;
- our ability to maintain optimal inventory levels;
- our response to changing consumer preferences and demand;
- product recalls, withdrawals, or safety alerts;
- our inability to manage our growth;

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- the conduct of our employees;
- our ability to protect our intellectual property and not infringe on the intellectual property of others;
- our ability to use the proceeds from this offering in an effective manner; and
- our ability to establish and maintain proper internal controls and comply with the financial reporting obligations of the SEC and Sarbanes-Oxley.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. All of the forward-looking statements we have included in or incorporated by reference into this prospectus supplement or the accompanying prospectus are based on information available to us on the date of the applicable document. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise, except as otherwise required by law. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements. You should read this prospectus supplement and the accompanying prospectus, together with the documents we have filed with the SEC that are incorporated by reference and any free writing prospectus that we may authorize for use in connection with this offering completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in the foregoing documents by these cautionary statements.

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary of our business highlights some of the information contained elsewhere in or incorporated by reference into this prospectus supplement or the accompanying prospectus. Because this is only a summary, however, it does not contain all of the information that may be important to you. You should carefully read this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, which are described under Incorporation of Certain Information by Reference in this prospectus supplement and the accompanying prospectus. You should also carefully consider the matters discussed in the section in this prospectus supplement entitled Risk Factors and in the accompanying prospectus and in other documents incorporated herein by reference.

Our Company

We are a women s healthcare product company focused on creating and commercializing products targeted exclusively for women. We currently manufacture and distribute branded and generic prescription prenatal vitamins as well as over-the-counter, or OTC, vitamins and cosmetics. We are currently focused on conducting the clinical trials necessary for regulatory approval and commercialization of advanced hormone therapy, or HT, pharmaceutical products designed to alleviate the symptoms of and reduce the health risks resulting from menopause-related hormone deficiencies, including hot flashes, osteoporosis, and vaginal dryness. We are developing these proposed hormone therapy products, which contain estradiol and progesterone alone or in combination, with the aim of providing equivalent efficacy at lower doses, thereby enabling an enhanced side effect profile compared with competing products. We have obtained U.S. Food and Drug Administration, or FDA, acceptance of our Investigational New Drug, or IND, applications to conduct clinical trials for three proposed products and intend to begin clinical trials for two of those products. We plan to begin Phase 3 clinical trials of our estradiol and progesterone combination and progesterone-alone proposed products following a successful completion of this offering, and we may file an IND to begin clinical studies of our proposed suppository vulvar and vaginal atrophy estradiol product later in 2013. We intend to leverage and grow our current marketing and sales organization to commercialize these proposed products in the United States assuming the successful completion of the FDA regulatory process. We are also evaluating various other indications for our hormone technology, including oral contraception, treatment of preterm birth, vulvo and vaginal atrophy, and premature ovarian failure. During the 12 months ended June 30, 2012, the total FDA-approved menopause-related progestin market was approximately $400 million in U.S. sales; the total FDA-approved menopause-related estrogen market was approximately $2.3 billion in U.S. sales; and the total FDA-approved menopause-related combination progestin/estrogen market was approximately $600 million in U.S. sales.

The hormone therapy market includes two segments: an FDA-approved drug market and a non-FDA approved drug market supplied by compounding pharmacies. FDA-approved products are easily measured and monitored, while non-FDA approved hormone therapy drug products, typically referred to as bioidenticals when produced by compounding pharmacies, are sold by compounding pharmacies and not monitored or easily measured. We estimate the non-FDA approved compounded bioidentical hormone therapy combination sales of estradiol and progesterone products sold by compounding pharmacies are approximately $1.5 billion per year. Our Phase 3 trials are intended to establish an indication of the safety and efficacy of our proposed bioidentical products at specific dosage levels. We intend our proposed hormone therapy products, if approved, to provide an alternative to the non-FDA approved compounded bioidentical market based on our belief that our proposed products will offer advantages in terms of proven safety, efficacy, and stability, lower patient cost as a result of insurance coverage, and improved access as a result of availability from major retail pharmacy chains rather than custom order or formulation by individual compounders. Compounders are currently under a substantial amount of national scrutiny due to recent widely published incidents involving patient death and illness. The FDA also may take action to cause compounders to cease the production of products that would be deemed copies of our FDA-approved products.

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As we continue the clinical development of our proposed hormone therapy products, we continue to market and expand our prescription and over-the-counter dietary supplement and cosmetic product lines, consisting of prenatal vitamins, vegan docosahexaenoic acid, or DHA, iron supplements, vitamin D supplements, natural menopause relief products, and scar tissue and cosmetic stretch mark creams under our vitaMedMD brand name and duplicate formulations of our prescription prenatal vitamins products, also referred to as generic formulations, under our BocaGreenMD Prena1 name. All of our prenatal vitamins are gluten, sugar, and lactose free. We believe our product attributes result in greater consumer acceptance and satisfaction than competitive products while offering the highest quality and patented ingredients.

Our sales model focuses on the 4Ps : patient, provider, pharmacist, and payor. We market and sell our current dietary supplement and cosmetic products primarily through a direct national sales force of approximately 40 full-time professionals that calls on healthcare providers in the obstetrics and gynecologic, or OB/GYN, market space as well as through our website directly to consumers. In addition, our products allow healthcare providers to offer an alternative to patients to meet their individual nutritional and financial requirements related to co-payment and cost-of-care considerations and help patients realize cost savings over competing products. We also believe that our combination of branded, generic, and over-the-counter lines offers physicians, women, and payors cost-effective alternatives for top-quality care. We supply our prescription dietary supplement products to consumers through retail pharmacies. We market our over-the-counter products either directly to consumers via our website and phone sales followed by home shipment or through physicians who then re-sell them to their patients. Our fully staffed customer care center uses current customer relationship management software to respond to healthcare providers, pharmacies, and consumers via incoming and outgoing telephone calls, e-mails, and live-chat. We also facilitate repeat customer orders for our non-prescription products through our website s auto-ship feature.

Our Growth Strategy

Our goal is to become the women s healthcare company recommended by healthcare providers to all patients by becoming the new standard in women s health with a complete line of products all under one quality brand. Key elements of our strategy to achieve this goal are as follows:

- focusing exclusively on women s health issues to enable us to build long-term relationships with women as they move through their life cycles of birth control, pregnancy, child birth, and pre- and post-menopause;

- focusing on our development, clinical trials, and commercialization of hormone therapy products designed to (1) alleviate the systems of and reduce the health effects resulting from menopause-related hormone deficiencies, including hot flashes, osteoporosis, and vaginal dryness, and (2) provide equivalent efficiency at lower doses, enabling an enhanced side effect profile compared with competing products;

- providing an alternative to the non-FDA approved compound bioidentical market for estradiol and progesterone products sold by compounding pharmacies;

- maintaining a marketing emphasis on large group OB/GYN practices that provide opportunities to reach large patient bases and that are receptive to the data and savings we provide;

- pursuing multiple distribution channels, including physicians and pharmacies through our direct sales force and our website;

- expanding our geographic market and sales team to cover the entire country by increasing our current 36 sales territories to 60 sales territories by the end of 2013; and

- introducing new products to build upon the introduction of our first three prescription prenatal vitamin products in the first and second quarters of 2012 and our generic line of prenatal vitamins in the fourth quarter of 2012, as well as our hormone therapy products consisting of a bioidentical oral combination drug of progesterone and estradiol, an oral progesterone drug, and a suppository vulvar

and vaginal atrophy estradiol drug. Early pharmacokinetic, or PK, studies of our proposed combination

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estradiol and progesterone drug demonstrate that the product is bioequivalent to the reference listed drug based on the criterion that the 90% confidence interval on the test-to-reference ratio is contained entirely within the interval 0.800 to 1.250.

Recent Developments

Fourth Quarter 2012 Results and Cash Position

During the quarter ended December 31, 2012, we generated revenue of approximately $1.2 million, bringing our revenue to approximately $3.8 million for the year ended December 31, 2012. Our cash, cash equivalents, and current marketable securities were approximately $1.5 million as of December 31, 2012. These financial results should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2012, as filed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. You should carefully read that document in its entirety, including the audited consolidated financial statements, before making an investment decision.

Debt Offering

On January 31, 2013, we issued a Multiple Advance Revolving Credit Note, or the Note, to Plato and Associates, LLC, or Plato. The Note allows us to draw down funding up to the $10 million maximum principal amount, at a stated interest rate of 6.0% per annum. Plato may make advances to us from time to time under the Note at our request, which advances will be of a revolving nature. Interest payments will be due and payable on a quarterly basis, commencing on April 10, 2013, and the principal balance outstanding under the Note, together with all accrued interest and other amounts payable under the Note, if any, shall be due and payable on February 24, 2014. As additional consideration for the Note, we issued to Plato a warrant to purchase 1,250,000 shares of our common stock at an exercise price $3.20 per share. This warrant will vest and become exercisable on October 31, 2013 and may be exercised any time after that date prior to its January 31, 2019 expiration date.

Our Offices

We are a Nevada corporation. We began our current business in May 2008. We maintain our principal executive offices at 951 Broken Sound Parkway NW, Suite 320, Boca Raton, Florida 33487. Our telephone number is (561) 961-1911. Our company maintains websites at www.therapeuticsmd.com, www.vitamedmd.com, www.vitamedmdrx.com, and www.bocagreenmd.com. The information contained on our websites or that can be accessed through our websites does not constitute part of this prospectus.

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THE OFFERING

Common stock offered by us	29,411,765 shares
Common stock to be outstanding immediately after this offering	129,196,747 shares
Underwriters option to purchase additional shares	We have granted the underwriters an option to purchase up to 4,411,765 additional shares of our common stock. This option is exercisable, in whole or in part, for a period of 30 days from the date of this prospectus supplement.
Directed share program	The underwriters have reserved for sale to our directors, officers, and employees and to certain persons having business relationships with the Company up to 30,000 of the shares of the common stock offered by this prospectus at the public offering price. We will offer these shares to the extent permitted under applicable regulations in the United States and in various countries. The number of shares available for sale to the general public in this offering will be reduced to the extent these persons purchase reserved shares. Any reserved shares not purchased will be offered by the underwriters to the general public on the same terms as the other shares. See the section entitled Underwriting Directed Share Program.
Use of proceeds	We intend to use the net proceeds from the sale of the shares of common stock under this prospectus supplement for general corporate purposes, including funding our Phase 3 clinical trials for our proposed hormone therapy products, other research and development, repayment of indebtedness, securing manufacturing technology and capacity, and working capital. Please see the section entitled Use of Proceeds on page S-27 of this prospectus supplement.
Risk factors	This investment involves a high degree of risk. See the information contained in or incorporated by reference under Risk Factors beginning on page S-6 of this prospectus supplement and in the documents incorporated by reference into this prospectus supplement.
Common stock symbol	Our common stock is quoted on the OTCQB under the symbol TXMD.

Pursuant to a Securities Purchase Agreement dated September 26, 2012, we granted certain of our stockholders that purchased an aggregate of 3,953,489 shares of our common stock thereunder, the right, if they elect, to purchase on the same terms as in this offering, a number of shares of common stock that is sufficient to maintain their respective pro rata ownership percentage of our common stock. None of these stockholders exercised their preemptive rights in connection with this offering.

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The number of shares of common stock to be outstanding immediately after this offering is based on 99,784,982 shares outstanding on December 31, 2012 and excludes the following as of that date:

- outstanding options representing the right to purchase a total of 13,733,488 shares of common stock at a weighted average exercise price of $1.16 per share;
- outstanding warrants representing the right to purchase a total of 12,193,499 shares of common stock at a weighted-average exercise price of $1.63 per share; and
- 19,242,667 shares of common stock reserved for future issuance under our non-qualified stock option plan.

If the underwriters option to purchase additional shares is exercised in full, we will issue and sell an additional 4,411,765 shares of our common stock and will have 133,608,512 shares outstanding after the offering.

Except as otherwise noted, all information in this prospectus supplement assumes no exercise of the underwriters option to purchase additional shares.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. Before deciding whether to invest in our common stock, you should carefully consider the risks described below, together with the other information in this prospectus supplement and the accompanying prospectus and the information contained in our other filings with the SEC, which are incorporated by reference in this prospectus supplement and the accompanying prospectus in their entirety, together with other information in this prospectus supplement, the accompanying prospectus, the information and documents incorporated by reference herein and therein, and in any free writing prospectus that we have authorized for use in connection with this offering. If any of these risks actually occurs, our business, financial condition, results of operations or cash flow could be seriously harmed. This could cause the trading price of our common stock to decline, resulting in a loss of all or part of your investment.

Risks Related to Our Business

We have incurred significant operating losses since inception and anticipate that we will incur continued losses for the foreseeable future.

We have incurred recurring net losses, including net losses of $35.1 million and $12.9 million for the years ended December 31, 2012 and 2011. As of December 31, 2012, we had an accumulated deficit of approximately $52.1 million. We have generated limited revenue and have funded our operations to date primarily from private sales of equity and debt securities. We expect to incur substantial additional losses over the next several years as our research, development, and clinical trial activities increase, especially those related to our proposed hormone therapy products. As a result, we may never achieve or maintain profitability unless we successfully commercialize our products, in particular, our proposed hormone therapy products. If we are unable to make required payments under any of our obligations for any reason, our creditors may take actions to collect their debts, including foreclosing on our intellectual property that collateralizes our obligations. If we continue to incur substantial losses and are unable to secure additional financing, we could be forced to discontinue or curtail our business operations, sell assets at unfavorable prices, refinance existing debt obligations on terms unfavorable to us, or merge, consolidate, or combine with a company with greater financial resources in a transaction that might be unfavorable to us.

Our independent registered public accounting firms, in their audit reports related to our financial statements for the years ended December 31, 2012 and 2011, expressed substantial doubt about our ability to continue as a going concern.

As a result of our continued losses, our independent registered public accounting firms have included an explanatory paragraph in their reports on our financial statements for the years ended December 31, 2012 and 2011, expressing substantial doubt as to our ability to continue as a going concern. The inclusion of a going concern explanatory paragraph in the report of our independent registered public accounting firms may make it more difficult for us to secure additional financing or enter into strategic relationships on terms acceptable to us, if at all, and may materially and adversely affect the terms of any financing that we might obtain.

We currently derive all of our revenue from sales of our women s health products, and our failure to maintain or increase sales of these products would have a material adverse effect on our business, financial condition, results of operations, and growth prospects.

We currently derive all of our revenue from sales of women s health products, including prenatal and women s multi-vitamins, iron supplements, vitamin D supplements, natural menopause relief, and scar reduction creams. While sales of our vitamin products grew from 2010 through 2012, we cannot assure you that such sales will continue to grow. In addition to other risks described herein, our ability to maintain or increase existing product sales is subject to a number of risks and uncertainties, including the following:

- the presence of new or existing competing products, including generic copies of our prescription dietary supplement products;
- any supply or distribution problems arising with any of our manufacturing and distribution strategic partners;
- changed or increased regulatory restrictions or regulatory actions by the FDA;

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- changes in healthcare laws and policy, including changes in requirements for rebates, reimbursement, and coverage by federal healthcare programs;

- the impact or efficacy of any price increases we may implement in the future;

- changes to our label and labeling, including new safety warnings or changes to our boxed warning, that further restrict how we market and sell our products; and

- acceptance of our products as safe and effective by physicians and patients.

If revenue from sales of our existing prescription and over-the-counter dietary supplements and cosmetics does not continue or increase, we may be required to reduce our operating expenses or to seek to raise additional funds, which could have a material adverse effect on our business, financial condition, results of operations, and growth prospects, or we may not be able to commence or continue clinical trials in order to seek approval for and commercialize our proposed hormone therapy products or any other products we may choose to develop in the future.

If our products do not have the effects intended or cause undesirable side effects, our business may suffer.

Although many of the ingredients in our current dietary supplement products are vitamins, minerals, and other substances for which there is a long history of human consumption, they also contain innovative ingredients or combinations of ingredients. Although we believe all of these products and the combinations of ingredients in them are safe when taken as directed, the products could have certain undesirable side effects if not taken as directed or if taken by a consumer who has certain medical conditions. In addition, these products may not have the effect intended if they are not taken in accordance with certain instructions, which include certain dietary restrictions. Furthermore, there can be no assurance that any of the products, even when used as directed, will have the effects intended or will not have harmful side effects in an unforeseen way or on an unforeseen cohort. If any of our products or products we develop or commercialize in the future are shown to be harmful or generate negative publicity from perceived harmful effects, our business, financial condition, results of operations, and prospects would be harmed significantly.

Our future success will depend in large part on our ability to commercialize our proposed hormone therapy products for women designed to alleviate the symptoms of and reduce the health risks resulting from menopause, including hot flashes, osteoporosis, and vaginal dryness.

Our future success will depend in large part on our ability to successfully develop and commercialize our proposed hormone therapy products designed to alleviate the symptoms of and reduce the health risks resulting from menopause, including hot flashes, osteoporosis, and vaginal dryness. We have submitted IND applications for our three proposed hormone therapy products, which the FDA has made effective and which permit us to conduct clinical testing on these proposed products. We intend to clinically test two of those proposed products and may submit an IND application for another proposed hormone therapy product later in 2013. However, we may not be able to complete the development of these proposed products, the results of the clinical trials may not be sufficient to support a New Drug Application, or NDA, for any of them, and even if we believe the results of our clinical trials are sufficient to support any NDA that we submit, the FDA may disagree and may not approve our NDA. In addition, even if the FDA approves one or more of our NDAs, it may do so with restrictions on the intended uses that may make commercialization of the product or products financially untenable. The failure to commercialize or obtain necessary approval for any one or more of these products would substantially harm our prospects and our business.

We may not be able to complete the development and commercialization of our proposed hormone therapy products if we fail to obtain additional financing.

We need substantial amounts of cash to complete the clinical development of our proposed hormone therapy products. Our existing cash and cash equivalents will not be sufficient to fund these requirements. In addition, changing circumstances may cause us to consume funds significantly faster than we currently anticipate, and we may need to spend more money than currently expected because of circumstances beyond our control. We do not currently have any committed external source of funds. We will attempt to raise additional capital from the issuance of equity or debt securities, collaborations with third parties, licensing of rights to these products, or other means, or a combination of any of the foregoing. Securing additional financing will require a substantial amount of time and attention from our management and may divert a disproportionate amount of their attention away from our day-to-day activities, which may adversely affect our ability to conduct our day-to-day operations. In addition, we cannot

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guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. If we are unable to raise additional capital when required or on acceptable terms, we may be required to take one or more of the following actions:

- significantly delay, scale back, or discontinue our product development and commercialization efforts;
- seek collaborators for our proposed hormone therapy products at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be the case; and
- license, potentially on unfavorable terms, our rights to our proposed hormone therapy products that we otherwise would seek to develop or commercialize ourselves.

Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures, or declaring dividends. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders will be diluted, and the terms of these new securities may include liquidation or other preferences that adversely affect the rights of our existing stockholders. If we raise additional funds through collaborations, strategic alliances, or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs, or proposed products or grant licenses on terms that may not be favorable to us.

If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we will be prevented from pursuing discovery, development, and commercialization efforts, and our ability to generate revenue and achieve or sustain profitability will be substantially harmed.

We have no experience as a company in bringing a drug to regulatory approval.

We have never obtained regulatory approval for, or commercialized, a drug. It is possible that the FDA may refuse to accept any or all of our planned NDAs for substantive review or may conclude, after review of our data, that our applications are insufficient to obtain regulatory approval of any of our proposed hormone therapy products. The FDA may also require that we conduct additional clinical or manufacturing validation studies, which may be costly and time-consuming, and submit that data before it will reconsider our applications. Depending on the extent of these or any other FDA required studies, approval of any NDA that we submit may be significantly delayed, possibly for years, or may require us to expend more resources than we have available or can secure. Any delay or inability in obtaining regulatory approvals would delay or prevent us from commercializing our proposed hormone therapy products, generating revenue from these proposed products, and achieving and sustaining profitability. It is also possible that additional studies, if performed and completed, may not be considered sufficient by the FDA to approve any NDA we submit. If any of these outcomes occur, we may be forced to abandon our planned NDAs for one or more of our proposed hormone therapy products, which would materially adversely affect our business and could potentially cause us to cease operations.

Clinical trials involve a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results.

Two proposed hormone therapy products are currently in various stages of clinical testing, and we have received a third accepted IND application from the FDA, but have not undertaken clinical trials for any proposed products. We may submit an IND application for a fourth proposed product in 2013. Clinic trials are expensive, can take many years to complete, and have highly uncertain outcomes. Failure can occur at any time during the clinical trial process as a result of inadequate performance of a drug, inadequate adherence by patients or investigators to clinical trial protocols, or other factors. New drugs in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through earlier clinical trials. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials as a result of a lack of efficacy or adverse safety profiles, despite promising results in earlier trials. Our future clinical trials may not be successful or may be more expensive or time-consuming than we currently expect. If clinical trials for any of our proposed hormone therapy products fail to demonstrate safety or efficacy to the satisfaction of the FDA, the FDA will not approve that drug and we would not be able to commercialize it, which will have a material adverse effect on our business, financial condition, results of operations, and prospects.

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Delays in clinical trials are common for many reasons, and any such delays could result in increased costs to us and jeopardize or delay our ability to obtain regulatory approval and commence product sales as currently contemplated.

We may experience delays in clinical trials for our proposed hormone therapy products. Our planned clinical trials might not begin on time; may be interrupted, delayed, suspended, or terminated once commenced; might need to be redesigned; might not enroll a sufficient number of patients; or might not be completed on schedule, if at all. Clinical trials can be delayed for a variety of reasons, including the following:

- delays in obtaining regulatory approval to commence a trial;
- imposition of a clinical hold following an inspection of our clinical trial operations or trial sites by the FDA or other regulatory authorities;
- imposition of a clinical hold because of safety or efficacy concerns by the data safety monitoring board, or DSMB, the FDA, an Institutional Review Board, or IRB, or us;
- delays in reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and clinical trial sites;
- delays in obtaining required institutional review board approval at each site;
- delays in identifying, recruiting, and training suitable clinical investigators;
- delays in recruiting suitable patients to participate in a trial;
- delays in having patients complete participation in a trial or return for post-treatment follow-up;
- clinical sites dropping out of a trial to the detriment of enrollment;
- time required to add new sites;
- delays in obtaining sufficient supplies of clinical trial materials, including suitable active pharmaceutical ingredient, or API; or
- delays resulting from negative or equivocal findings of the DSMB for a trial.

Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors, including the size and nature of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, competing clinical trials, and clinicians and patients perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications we are investigating. Any of these delays in completing our clinical trials could increase our costs, slow down our product development and approval process, and jeopardize our ability to commence product sales and generate revenue.

We may be required to suspend or discontinue clinical trials because of adverse side effects or other safety risks that could preclude approval of our proposed hormone therapy products.

Our clinical trials may be suspended or terminated at any time for a number of reasons. A clinical trial may be suspended or terminated by us, our collaborators, the FDA, or other regulatory authorities because of a failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, presentation of unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using the investigational drug, changes in governmental regulations or administrative actions, lack of adequate funding to continue the clinical trial, or negative or equivocal findings of the DSMB or the IRB for a clinical trial. An institutional review board may also suspend or terminate our clinical trials for failure to protect patient safety or patient rights. We may voluntarily suspend or terminate our clinical trials if at any time we believe that they present an unacceptable risk to participants. In addition, regulatory agencies may order the temporary or permanent discontinuation of our clinical trials at any time if they believe the clinical trials are not being conducted in accordance with applicable regulatory requirements or present an unacceptable safety risk to participants. If we elect or are forced to suspend or terminate any clinical trial of any proposed product that we develop, the commercial prospects of such proposed product will be harmed and our ability to generate product revenue from any of these proposed products will be delayed or eliminated. Any of these occurrences may harm our business, financial condition, results of operations, and prospects significantly.

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We rely on third parties to conduct our research and development activities, including our clinical trials, and we may experience delays in obtaining or may be unsuccessful in obtaining regulatory approval for, or in commercializing our proposed hormone therapy products if these third parties do not successfully carry out their contractual duties or meet expected deadlines.

We do not have the resources to independently conduct research and development activities. Therefore, we have relied, and plan to continue to rely, on various third-party CROs to conduct our research and development activities and to recruit patients and monitor and manage data for our on-going clinical programs for our proposed hormone therapy products, as well as for the execution of our clinical studies. Although we control only certain aspects of our CROs activities, we are responsible for ensuring that each of our studies is conducted in accordance with the applicable protocol, legal, regulatory, and scientific standards and our reliance on the CROs does not relieve us of our regulatory responsibilities. We cannot assure you that the CROs will conduct the research properly or in a timely manner, or that the results will be reproducible. We and our CROs are required to comply with the FDA s Current Good Clinical Practices, or cGCPs, which are regulations and guidelines enforced by the FDA for all of our products in clinical development. The FDA enforces these cGCPs through periodic inspections of trial sponsors, principal investigators, and clinical trial sites. If we or our CROs fail to comply with applicable cGCPs, the clinical data generated in our clinical trials may be deemed unreliable or invalid, and the FDA may require us to perform additional clinical trials before approving our proposed products. We cannot assure you that, upon inspection, the FDA will determine that any of our clinical trials comply with cGCPs. In addition, to evaluate the safety and effectiveness compared to placebo of our proposed hormone therapy products to a statistically significant degree, our clinical trials will require an adequately large number of test subjects. Any clinical trial that a CRO conducts abroad on our behalf is subject to similar regulation. Accordingly, if our CROs fail to comply with these regulations or recruit a sufficient number of patients, we may be required to repeat clinical trials, which would delay the regulatory approval process.

In addition, we do not employ the personnel of our CROs, and, except for remedies available to us under our agreements with such organizations, we cannot control whether or not they will devote sufficient time and resources to our on-going clinical and pre-clinical programs. Our CROs may also have relationships with other commercial entities, including one or more of our competitors, for which they may also be conducting clinical studies or other drug development activities, which could impede their ability to devote appropriate time to our clinical programs. If our CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised because of the failure to adhere to our clinical protocols or regulatory requirements, or for other reasons, our clinical trials may be extended, delayed, or terminated, and we may not be able to obtain regulatory approval for or successfully commercialize our proposed hormone therapy products that we seek to develop. As a result, our financial results and the commercial prospects for our proposed hormone therapy products that we seek to develop would be harmed, our costs could increase, and our ability to generate revenue could be delayed or ended.

We typically engage one or more CROs on a project-by-project basis for each study or trial. While we have developed and plan to maintain our relationships with CROs that we have previously engaged, we also expect to enter into agreements with other CROs to obtain additional resources and expertise in an attempt to accelerate our progress with regard to on-going clinical programs and, specifically, the compilation of clinical trial data for submission with an NDA for each of our proposed hormone therapy products. If any of our relationships with these third parties terminate, we may not be able to enter into arrangements with alternative CROs or do so on commercially reasonable terms. Switching or entering into new relationships with CROs involves substantial cost and requires extensive management time and focus. In addition, there is a natural transition period when a new CRO commences work. As a result, delays occur, which can materially affect our ability to meet our desired clinical development timelines and can increase our costs significantly. Although we try to carefully manage our relationships with our CROs, there can be no assurance that we will not encounter challenges or delays in the future or that these delays or challenges will not have a material adverse impact on our business, financial condition, results of operations, or prospects.

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Future legislation, regulations, and policies adopted by the FDA or other regulatory authorities may increase the time and cost required for us to conduct and complete clinical trials for our proposed hormone therapy products.

The FDA has established regulations, guidelines, and policies to govern the drug development and approval process, as have foreign regulatory authorities. Any change in regulatory requirements resulting from the adoption of new legislation, regulations, or policies may require us to amend existing clinical trial protocols or add new clinical trials to comply with these changes. Such amendments to existing protocols or clinical trial applications or the need for new ones, may significantly and adversely affect the cost, timing, and completion of the clinical trials for our proposed hormone therapy products.

In addition, the FDA s policies may change and additional government regulations may be issued that could prevent, limit, or delay regulatory approval of our product candidates, or impose more stringent product labeling and post-marketing testing and other requirements. If we are slow or unable to adapt to such changes, our business, prospects, and ability to achieve or sustain profitability would be adversely affected.

Even if we obtain regulatory approval for our proposed hormone therapy products, we will still face extensive, ongoing regulatory requirements and review, and our products may face future development and regulatory difficulties.

Even if we obtain regulatory approval for one or more of our proposed hormone therapy products in the United States, the FDA may still impose significant restrictions on a product s indicated uses or marketing or to the conditions for approval, or impose ongoing requirements for potentially costly post-approval studies, including Phase 4 clinical trials, or post-market surveillance. As a condition to granting marketing approval of a product, the FDA may require a company to conduct additional clinical trials. The results generated in these post-approval clinical trials could result in loss of marketing approval, changes in product labeling, or new or increased concerns about side effects or efficacy of a product. For example, the labeling for our proposed hormone therapy products, if approved, may include restrictions on use or warnings. The Food and Drug Administration Amendments Act of 2007, or FDAAA, gives the FDA enhanced post-market authority, including the explicit authority to require post-market studies and clinical trials, labeling changes based on new safety information and compliance with FDA-approved Risk Evaluation and Mitigation Strategies, or REMS, programs. If approved, our proposed hormone therapy products will also be subject to ongoing FDA requirements governing the manufacturing, labeling, packaging, storage, distribution, safety surveillance, advertising, promotion, record keeping, and reporting of safety and other post-market information. The FDA s exercise of its authority under the FDAAA could result in delays or increased costs during product development, clinical trials and regulatory review, increased costs to comply with additional post-approval regulatory requirements, and potential restrictions on sales of approved products. Foreign regulatory agencies often have similar authority and may impose comparable costs. Post-marketing studies, whether conducted by us or by others and whether mandated by regulatory agencies or voluntary, and other emerging data about marketed products, such as adverse event reports, may also adversely affect sales of our proposed hormone therapy products once approved, and potentially our other marketed products. Further, the discovery of significant problems with a product similar to one of our products that implicate (or are perceived to implicate) an entire class of products could have an adverse effect on sales of our approved products. Accordingly, new data about our products could negatively affect demand because of real or perceived side effects or uncertainty regarding efficacy and, in some cases, could result in product withdrawal or recall. Furthermore, new data and information, including information about product misuse, may lead government agencies, professional societies, and practice management groups or organizations involved with various diseases to publish guidelines or recommendations related to the use of our products or the use of related therapies or place restrictions on sales. Such guidelines or recommendations may lead to lower sales of our products.

The holder of an approved NDA also is subject to obligations to monitor and report adverse events and instances of the failure of a product to meet the specifications in the NDA. Application holders must submit new or supplemental applications and obtain FDA approval for certain changes to the approved product, product labeling, or manufacturing process. Application holders must also submit advertising and other promotional material to the FDA and report on ongoing clinical trials. Legal requirements have also been enacted to require disclosure of clinical trial results on publicly available databases.

In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with the FDA s Current Good Manufacturing Practice, or cGMPs, regulations. If we or a regulatory agency discovers previously unknown problems with a product,

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such as adverse events of unanticipated severity or frequency or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions on that product, the manufacturing facility, or us, including requiring recall or withdrawal of the product from the market or suspension of manufacturing, requiring new warnings or other labeling changes to limit use of the drug, requiring that we conduct additional clinical trials, imposing new monitoring requirements, or requiring that we establish a REMS. Advertising and promotional materials must comply with FDA rules in addition to other potentially applicable federal and state laws. The distribution of product samples to physicians must comply with the requirements of the Prescription Drug Marketing Act. Sales, marketing, and scientific/educational grant programs must comply with the anti-fraud and abuse provisions of the Social Security Act, the False Claims Act, and similar state laws. Pricing and rebate programs must comply with the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990 and the Veterans Health Care Act of 1992. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of these activities are also potentially subject to federal and state consumer protection and unfair competition laws. If we or our third-party collaborators fail to comply with applicable regulatory requirements, a regulatory agency may take any of the following actions:

- conduct an investigation into our practices and any alleged violation of law;
- issue warning letters or untitled letters asserting that we are in violation of the law;
- seek an injunction or impose civil or criminal penalties or monetary fines;
- suspend or withdraw regulatory approval;
- require that we suspend or terminate any ongoing clinical trials;
- refuse to approve pending applications or supplements to applications filed by us;
- suspend or impose restrictions on operations, including costly new manufacturing requirements;
- seize or detain products, refuse to permit the import or export of products, or require us to initiate a product recall; or
- exclude us from providing our products to those participating in government healthcare programs, such as Medicare and Medicaid, and refuse to allow us to enter into supply contracts, including government contracts.

The occurrence of any of the foregoing events or penalties may force us to expend significant amounts of time and money and may significantly inhibit our ability to bring to market or continue to market our products and generate revenue. Similar regulations apply in foreign jurisdictions.

Our dependence upon third parties for the manufacture and supply of our existing women s healthcare products and our proposed hormone therapy products may cause delays in, or prevent us from, successfully developing, commercializing, and marketing our products.

We do not currently have nor do we plan to build the infrastructure or capability internally to manufacture our existing women s healthcare products. For example, we depend on Lang Naturals, Inc., or Lang, to supply approximately 80% of our *vitaMed* products. We also rely on third-party contract manufacturing organizations, or CMOs to supply our proposed hormone therapy products for use in the conduct of our clinical trials. We rely on these third parties to manufacture these products in accordance with our specifications and in compliance with applicable regulatory requirements. We do not have long-term contracts for the commercial supply of our products or our proposed hormone therapy products. We intend to pursue long-term manufacturing agreements, but we may not be able to negotiate such agreements on acceptable terms, if at all.

In addition, regulatory requirements could pose barriers to the manufacture of our products, including our proposed hormone therapy products. Our third-party manufacturers are required to comply with cGMP regulations. As a result, the facilities used by any of our current or future manufacturers must be approved by the FDA. Holders of NDAs, or other forms of FDA approvals or clearances, or those distributing a regulated product under their own name, are responsible for manufacturing even though that manufacturing is conducted by a third-party CMO. All of our existing products are and our proposed hormone therapy products, if approved, will be manufactured by CMOs. These CMOs are required by the terms of our contracts to manufacture our products in compliance with the applicable regulatory requirements. If our manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA and any applicable foreign regulatory authority, they will not be able to

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secure the applicable approval for their manufacturing facilities. If these facilities are not approved for the commercial manufacture of our existing products or our proposed hormone therapy products, we may need to find alternative manufacturing facilities, which would result in disruptions of our sales and significant delays of up to several years in obtaining approval for our proposed hormone therapy products. In addition, our manufacturers will be subject to ongoing periodic unannounced inspections by the FDA and corresponding state and foreign agencies for compliance with cGMPs and similar regulatory requirements. Failure by any of our manufacturers to comply with applicable cGMP regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, delays, suspensions or withdrawals of approvals, operating restrictions, interruptions in supply, recalls, withdrawals, issuance of safety alerts, and criminal prosecutions, any of which could have a material adverse impact on our business, financial condition, results of operations, and prospects. Finally, we also could experience manufacturing delays if our CMOs give greater priority to the supply of other products over our products and proposed products or otherwise do not satisfactorily perform according to the terms of their agreements with us.

If any supplier of the product for our proposed hormone therapy products experiences any significant difficulties in its respective manufacturing processes, does not comply with the terms of the agreement between us, or does not devote sufficient time, energy, and care to providing our manufacturing needs, we could experience significant interruptions in the supply of our proposed hormone therapy products, which could impair our ability to supply our proposed hormone therapy products at the levels required for our clinical trials and commercialization and prevent or delay their successful development and commercialization.

The commercial success of our existing products and our proposed hormone therapy products that we develop, if approved in the future, will depend upon gaining and retaining significant market acceptance of these products among physicians and payors.

Physicians may not prescribe our products, including any of our proposed hormone therapy products, if approved by the appropriate regulatory authorities for marketing and sale, which would prevent us from generating revenue or becoming profitable. Market acceptance of our products, including our proposed hormone therapy products by physicians, patients, and payors, will depend on a number of factors, many of which are beyond our control, including the following:

- the clinical indications for which our proposed hormone therapy products are approved, if at all;
- acceptance by physicians and payors of each product as safe and effective treatment;
- the cost of treatment in relation to alternative treatments, including numerous generic drug products;
- the relative convenience and ease of administration of our products in the treatment of the symptoms for which they are intended;
- the availability and efficacy of competitive drugs;
- the effectiveness of our sales force and marketing efforts;
- the extent to which the product is approved for inclusion on formularies of hospitals and managed care organizations;
- the availability of adequate reimbursement by third parties, such as insurance companies and other healthcare payors, or by government healthcare programs, including Medicare and Medicaid;
- limitations or warnings contained in a product s FDA-approved labeling; and

- prevalence and severity of adverse side effects.

Even if the medical community accepts that our products are safe and efficacious for their approved indications, physicians may not immediately be receptive to the use or may be slow to adopt our products as an accepted treatment for the symptoms for which they are intended. We cannot assure you that any labeling approved by the FDA will permit us to promote our products as being superior to competing products. If our products, including, in particular our proposed hormone therapy products, if approved, do not achieve an adequate level of acceptance by physicians and payors, we may not generate sufficient or any revenue from these products and we may not become profitable. In addition, our efforts to educate the medical community and third-party payors on the benefits of our products may require significant resources and may never be successful.

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Our products, including our proposed hormone therapy products, if approved, face significant competition from branded and generic products, and our operating results will suffer if we fail to compete effectively.

Development and awareness of our brand will depend largely upon our success in increasing our customer base. The dietary supplement and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Our products, including any proposed hormone therapy products that are approved, face intense competition, including from major multinational pharmaceutical and dietary supplement companies, established biotechnology companies, specialty pharmaceutical, and generic drug companies. Many of these companies have greater financial and other resources, such as larger research and development staffs and more experienced marketing and manufacturing organizations. As a result, these companies may obtain regulatory approval more rapidly and may be more effective in selling and marketing their products. They also may invest heavily to accelerate discovery and development of novel compounds or to in-license novel compounds that could make the products that we sell or develop obsolete. As a result, our competitors may succeed in commercializing products before we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. If we are unable to economically promote or maintain our brand, our business, results of operations and financial condition could be severely harmed. In addition, our efforts to provide an alternative to the non FDA-approved compound bioidentical market for estradiol and progesterone products sold by compounding pharmacies may not be successful.

Reimbursement may not be available for our products, which could make it difficult for us to sell our products profitably.

Market acceptance and sales of our products, including any proposed hormone therapy products, will depend on coverage and reimbursement policies and may be affected by healthcare reform measures. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which products they will pay for and establish reimbursement levels. Third-party payors generally do not cover over-the-counter products, and coverage for vitamins and dietary supplements varies. We cannot be sure that coverage and reimbursement will be available for our products, including any proposed hormone therapy products, if approved. We also cannot be sure that the amount of reimbursement available, if any, will not reduce the demand for, or the price of, our products. If reimbursement is not available or is available only at limited levels, we may not be able to successfully compete through sales of our existing dietary supplement products or successfully commercialize our proposed hormone therapy products.

Specifically, in both the United States and some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also called the Medicare Modernization Act, or MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and certain others, and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of certain outpatient drugs that will be covered in any therapeutic class. As a result of this legislation and the expansion of federal coverage of drug products, we expect that there will be additional pressure to contain and reduce costs. These and future cost-reduction initiatives could decrease the coverage and price that we receive for our products, including our proposed hormone therapy products, if approved, and could seriously harm our business. While the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policies and payment limitations in setting their own reimbursement rates, and any reduction in reimbursement under Medicare may result in a similar reduction in payments from private payors.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively, PPACA, became law in the United States. The goal of PPACA is to reduce the cost of healthcare and substantially change the way healthcare is financed by both governmental and private insurers. Among other measures, PPACA imposes increased rebates on manufacturers for certain covered drug products reimbursed by state Medicaid programs. While we cannot predict the full effect PPACA will have on federal reimbursement policies in general or on our business specifically, the PPACA may result in downward pressure on drug reimbursement, which could negatively affect market acceptance of our products. In addition, we cannot predict whether new proposals will be made or adopted, when they may be adopted or what impact they may have on us if they are adopted.

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The availability of generic products at lower prices than branded products, may also substantially reduce the likelihood of reimbursement for branded products, such as our proposed hormone therapy products, if approved. We expect to experience pricing pressures in connection with the sale of our products generally due to the trend toward managed healthcare, the increasing influence of health maintenance organizations, and additional legislative proposals. If we fail to successfully secure and maintain adequate coverage and reimbursement for our products or are significantly delayed in doing so, we will have difficulty achieving market acceptance of our products and our business will be harmed.

Product liability lawsuits could divert our resources, result in substantial liabilities and reduce the commercial potential of our products.

We face an inherent risk of product liability claims as a result of the marketing of our current products and the clinical testing of our proposed hormone therapy products despite obtaining appropriate informed consents from our clinical trial participants, and we will face an even greater risk if we obtain FDA approval and commercialize our proposed hormone therapy products in the United States or other additional jurisdictions or if we engage in the clinical testing of proposed new products or commercialize any additional products. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during clinical testing, manufacturing, marketing, or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability, or a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our existing products or proposed hormone therapy products, if approved. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, product liability claims may result in any of the following:

- decreased demand for our products or products that we may develop in the future;
- loss of revenue;
- injury to our reputation;
- difficulty recruiting subjects for clinical trials or withdrawal of these subjects before a trial is completed;
- initiation of investigations by regulators;
- costs to defend the related litigation;
- a diversion of management s time and our resources;
- substantial monetary awards to trial participants or patients;
- product recalls or withdrawals;
- labeling, marketing, or promotional restrictions;
- exhaustion of any available insurance and our capital resources;

- the inability to commercialize our products or proposed hormone therapy products; and

- a decline in our stock price.

Although we maintain general liability insurance of up to $10 million in the aggregate and clinical trial liability insurance of $10 million in the aggregate for our proposed hormone therapy products, this insurance may not fully cover potential liabilities. The cost of any product liability litigation or other proceeding, even if resolved in our favor, could be substantial. In addition, our inability to obtain or maintain sufficient insurance coverage at an acceptable cost or to otherwise protect against potential product liability claims could prevent or inhibit the development and commercial production and sale of our products, which could adversely affect our business, financial condition, results of operations, and prospects.

Our business may be affected by unfavorable publicity or lack of consumer acceptance.

We are highly dependent upon consumer acceptance of the safety and quality of our products, as well as similar products distributed by other companies. Consumer acceptance of a product can be significantly influenced by scientific research or findings, national media attention, and other publicity about product use. A product may be received favorably resulting in high sales associated with that product that may not be sustainable as consumer preferences change. Future scientific research or publicity could be unfavorable to our industry or any of our particular products and may not be consistent with earlier favorable research or publicity. A future research report or

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publicity that is perceived by our consumers as less than favorable or that may question earlier favorable research or publicity could have a material adverse effect on our ability to generate revenue. Adverse publicity in the form of published scientific research, statements by regulatory authorities or otherwise, whether or not accurate, that associates consumption of our product or any other similar product with illness or other adverse effects, or that questions the benefits of our product or a similar product, or that claims that such products do not have the effect intended could have a material adverse effect on our business, reputation, financial condition or results of operations.

If we use hazardous and biological materials in a manner that causes injury or violates applicable law, we may be liable for damages.

Our research and development activities involve the controlled use of potentially hazardous substances, including chemical, biological, and radioactive materials. In addition, our operations produce hazardous waste products. Federal, state, and local laws and regulations in the United States govern the use, manufacture, storage, handling, and disposal of hazardous materials. Although we believe that our procedures for use, handling, storing, and disposing of these materials (all of which only occur at third-party sites operated by our contractors) comply with legally prescribed standards, we may incur significant additional costs to comply with applicable laws in the future. We also cannot predict the impact on our business of new or amended environmental laws or regulations, or any changes in the way existing and future laws and regulations are interpreted or enforced. Also, even if we are in compliance with applicable laws, we cannot completely eliminate the risk of contamination or injury resulting from hazardous materials, and we may incur liability as a result of any such contamination or injury. In the event of an accident, we could be held liable for damages or penalized with fines, and the liability could exceed our resources, and we do not carry liability insurance covering the use of hazardous materials. If we fail to comply with applicable requirements, we could incur substantial costs, including civil or criminal fines and penalties, clean-up costs, or capital expenditures for control equipment or operational changes necessary to achieve or maintain compliance. Compliance with applicable environmental laws and regulations is expensive, and current or future environmental regulations may impair our research, development and production efforts, which adversely affect our business, financial condition, results of operations, and prospects.

We are subject to extensive and costly government regulation.

The products we currently market, including the vitamins and cosmetic creams, and the pharmaceutical products we are developing and planning to develop in the future, are subject to extensive and rigorous domestic government regulation, including regulation by the FDA, the Centers for Medicare & Medicaid Services, or CMS, other divisions of the U.S. Department of Health and Human Services, including its Office of Inspector General, the U.S. Department of Justice, the Departments of Defense and Veterans Affairs, to the extent our products are paid for directly or indirectly by those departments, state and local governments, and their respective foreign equivalents. The FDA regulates dietary supplements, cosmetics, and drugs under different regulatory schemes. For example, the FDA regulates the processing, formulation, safety, manufacturing, packaging, labeling, advertising, and distribution of dietary supplements and cosmetics under its dietary supplement and cosmetic authority, respectively. The FDA also regulates the research, development, pre-clinical and clinical testing, manufacture, safety, effectiveness, record keeping, reporting, labeling, storage, approval, advertising, promotion, sale, distribution, import, and export of pharmaceutical products under various regulatory provisions. If any drug products we develop are tested or marketed abroad, they will also be subject to extensive regulation by foreign governments, whether or not we have obtained FDA approval for a given product and its uses. Such foreign regulation may be equally or more demanding than corresponding U.S. regulation.

Government regulation substantially increases the cost and risk of researching, developing, manufacturing, and selling products. Our failure to comply with these regulations could result in, by way of example, significant fines, criminal and civil liability, product seizures, recalls, withdrawals, withdrawals of approvals, and exclusion and debarment from government programs. Any of these actions, including the inability of our proposed hormone therapy products to obtain and maintain regulatory approval, would have a materially adverse effect on our business, financial condition, results of operations, and prospects.

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We are subject to additional federal and state laws and regulations relating to our business, and our failure to comply with those laws could have a material adverse effect on our results of operations and financial conditions.

We are subject to additional healthcare regulation and enforcement by the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include the following:

- the federal healthcare program Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering, or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order, or recommendation of, any good or service for which payment may be made under government healthcare programs such as the Medicare and Medicaid programs;

- federal false claims laws that prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid or other government healthcare programs that are false or fraudulent;

- federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters; and

- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payer, including commercial insurers.

Further, the recently enacted PPACA, among other things, amends the intent requirement of the federal anti-kickback and criminal healthcare fraud statutes. A person or entity can now be found guilty of fraud or false claims under PPACA without actual knowledge of the statute or specific intent to violate it. In addition, PPACA provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the false claims statutes. Possible sanctions for violation of these anti-kickback laws include monetary fines, civil and criminal penalties, exclusion from Medicare, Medicaid and other government programs and forfeiture of amounts collected in violation of such prohibitions. Any violations of these laws, or any action against us for violation of these laws, even if we successfully defend against it, could result in a material adverse effect on our reputation, business, results of operations, and financial condition.

PPACA also imposes new reporting requirements on device and pharmaceutical manufacturers to make annual public disclosures of payments to healthcare providers and ownership of their stock by healthcare providers. Failure to submit required information may result in civil monetary penalties of up to an aggregate of $150,000 per year (or up to an aggregate of $1 million per year for knowing failures), for all payments, transfers of value or ownership or investment interests that are not reported. Manufacturers will be required to begin data collection on August 1, 2013 and report such data to CMS by March 31, 2014.

In addition, there has been a recent trend of increased federal and state regulation of payments made to physicians for marketing. Some states, such as California, Massachusetts and Vermont, mandate implementation of corporate compliance programs, along with the tracking and reporting of gifts, compensation and other remuneration to physicians.

The scope and enforcement of these laws is uncertain and subject to change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. We cannot predict the impact on our business of any changes in these laws. Federal or state regulatory authorities may challenge our current or future activities under these laws. Any such challenge could have a material adverse effect on our reputation, business, results of operations, and financial condition. Any state or federal regulatory review of us, regardless of the outcome, would be costly and time-consuming.

If we are not successful in attracting and retaining highly qualified personnel, we may not be able to successfully implement our business strategy.

Our ability to compete in the highly competitive pharmaceutical industry depends in large part on our ability to attract and retain highly qualified managerial, scientific, and medical personnel. In order to induce valuable employees to remain with us, we have, among other things, provided stock options that vest over time. The value to employees of stock options will be significantly affected by movements in our stock price that we

cannot control and may at any time be insufficient to counteract more lucrative offers from other companies.

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Despite our efforts to retain valuable employees, members of our management, scientific, and medical teams may terminate their employment with us on short notice. We do not have employment agreements with a number of our key employees. As a result, most employees are employed on an at-will basis, which means that any of these employees could leave our employment at any time, with or without notice, and may go to work for a competitor. The loss of the services of any of our executive officers or other key employees could potentially harm our business, operating results, and financial condition. Our success also depends on our ability to continue to attract, retain, and motivate highly skilled scientific and medical personnel.

Any failure to adequately expand a direct sales force will impede our growth.

We expect to be substantially dependent on a direct sales force to attract new business and to manage customer relationships. We plan to expand our direct sales force and believe that there is significant competition for qualified, productive direct sales personnel with advanced sales skills and technical knowledge. Our ability to achieve significant growth in revenue in the future will depend, in large part, on our success in recruiting, training, and retaining sufficient direct sales personnel. New and future hires may not become as productive as expected, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets in which we do business. While there presently exists a high rate of unemployment, if we are unable to hire and develop sufficient numbers of productive sales personnel our business prospects could suffer.

Other pharmaceutical companies with which we compete for qualified personnel have greater financial and other resources, different risk profiles, and longer histories than we do. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high-quality candidates than what we offer. If we are unable to continue to attract and retain high-quality personnel, our ability to commercialize drug candidates will be limited.

Our success is tied to our distribution channels.

We sell our prescription dietary supplement products to wholesale distributors, specialty pharmacies, specialty distributors, and chain drug stores that generally sell products to retail pharmacies, hospitals, and other institutional customers. However, over 98% of our product shipments since inception were to only three customers: AmerisourceBergen Corporation, Cardinal Health, Inc., and McKesson Corporation. Our business would be harmed if any of these customers refused to distribute our products or refused to purchase our products on commercially favorable terms to us.

A failure to maintain optimal inventory levels to meet commercial demand for our products could harm our reputation and subject us to financial losses.

Our ability to maintain optimal inventory levels to meet commercial demand depends on the performance of third-party contract manufacturers. In some instances, our products have unique ingredients used under license arrangements. If our manufacturers are unsuccessful in obtaining raw materials, if we are unable to manufacture and release inventory on a timely and consistent basis, if we fail to maintain an adequate level of product inventory, if inventory is destroyed or damaged, or if our inventory reaches its expiration date, patients might not have access to our products, our reputation and brands could be harmed, and physicians may be less likely to recommend our products in the future, each of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our success depends on how efficiently we respond to changing consumer preferences and demand.

Our success depends, in part, on our ability to anticipate and respond to changing consumer trends and preferences. We may not be able to respond in a timely or commercially appropriate manner to these changes. Our failure to accurately predict these trends could negatively impact our inventory levels, sales, and consumer opinion of us as a source for the latest product. The success of our new product offerings depends upon a number of factors, including our ability to achieve the following:

- accurately anticipate customer needs;
- innovate and develop new products;

- successfully commercialize new products in a timely manner;
- competitively price our products in the market;
- procure and maintain products in sufficient volumes and in a timely manner; and
- differentiate our product offerings from those of our competitors.

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If we do not introduce new products, make enhancements to existing products, or maintain the appropriate inventory levels to meet customers demand in a timely manner, our business, results of operations, and financial condition could be materially and adversely affected.

We may initiate product recalls or withdrawals, or may be subject to regulatory enforcement actions that could negatively affect our business.

We may be subject to product recalls, withdrawals, or seizures if any of the products we formulate, manufacture, or sell are believed to cause injury or illness or if we are alleged to have violated governmental regulations in the manufacture, labeling, promotion, sale, or distribution of any of our products. A recall, withdrawal, or seizure of any of our products could materially and adversely affect consumer confidence in our brands and lead to decreased demand for our products. In addition, a recall, withdrawal, or seizure of any of our products would require significant management attention, would likely result in substantial and unexpected expenditures, and could materially and adversely affect our business, financial condition, and results of operations.

We will need to grow our organization, and we may experience difficulties in managing this growth, which could disrupt our operations.

As of December 31, 2012, we had 69 employees. As our development and commercialization plans and strategies develop, we expect to expand our employee base for managerial, operational, financial, and other resources and, depending on our commercialization strategy, we may further expand our employee base for sales and marketing resources. Future growth would impose significant added responsibilities on members of management, including the need to identify, recruit, maintain, motivate, and integrate additional employees. Also, our management may need to divert a disproportionate amount of its attention away from their day-to-day activities and devote a substantial amount of time to managing these growth activities. We may not be able to effectively manage the expansion of our operations, which may result in weaknesses in our infrastructure, give rise to operational mistakes, loss of business opportunities, loss of employees and reduced productivity among remaining employees. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of additional product candidates. If we are unable to effectively manage our expected growth, our expenses may increase more than expected, our ability to increase revenue could be reduced and we may not be able to implement our business strategy. Our future financial performance and our ability to commercialize our proposed hormone therapy products, if approved, and compete effectively will depend, in part, on our ability to effectively manage any future growth in our organization.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with FDA regulations, to provide accurate information to the FDA, to comply with federal and state healthcare fraud and abuse laws and regulations, to report financial information or data accurately, or to disclose unauthorized activities to us. In particular, sales, marketing, and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing, and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs, and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We have adopted a Code of Conduct and Ethics, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with these laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

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Risks Related to our Intellectual Property

Another party could develop hormone therapy products and obtain FDA regulatory exclusivity in the United States before we do, potentially preventing our ability to commercialize our proposed hormone therapy products and other products in development.

We plan to seek to obtain market exclusivity for our proposed hormone therapy products and any other drug candidates we develop in the future. To the extent that patent protection is not available or has expired, FDA marketing exclusivity may be the only available form of exclusivity available for these proposed products. Marketing exclusivity can delay the submission or the approval of certain marketing applications. Potentially competitive products may also be seeking marketing exclusivity and may be in various stages of development, including some more advanced than us. We cannot predict with certainty the timing of FDA approval or whether FDA approval will be granted, nor can we predict with certainty the timing of FDA approval for competing products or whether such approval will be granted. It is possible that competing products may obtain FDA approval with marketing exclusivity before we do, which could delay our ability to submit a marketing application or obtain necessary regulatory approvals, result in lost market opportunities with respect to our proposed hormone therapy products, and materially adversely affect our business, financial condition, and results of operations.

If our efforts to protect the proprietary nature of the intellectual property covering our proposed hormone therapy products and other products are not adequate, we may not be able to compete effectively in our market.

Our commercial success will depend in part on our ability to obtain additional patents and protect our existing patent positions as well as our ability to maintain adequate protection of other intellectual property for our proposed hormone therapy products and other products. If we do not adequately protect our intellectual property, competitors may be able to use our technologies and erode or negate any competitive advantage we may have, which could harm our business and ability to achieve profitability. The patent positions of pharmaceutical companies are highly uncertain. The legal principles applicable to patents are in transition due to changing court precedent and legislative action, and we cannot be certain that the historical legal standards surrounding questions of validity will continue to be applied or that current defenses relating to issued patents in these fields will be sufficient in the future. Changes in patent laws in the United States, such as the recently adopted America Invents Act of 2011, may affect the scope, strength, and enforceability of our patent rights or the nature of proceedings that may be brought by us related to our patent rights. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and we may encounter significant problems in protecting our proprietary rights in these countries. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets.

These risks include the possibility of the following:

- the patent applications that we have filed may fail to result in issued patents in the United States or in foreign countries;
- patents issued or licensed to us or our partners may be challenged, discovered to have been issued on the basis of insufficient or incorrect information, or held to be invalid or unenforceable;
- the scope of any patent protection may be too narrow to exclude other competitors from developing or designing around these patents;
- we or our licensors were not the first to make the inventions covered by each of our issued patents and pending patent applications;
- we or our licensors were not the first to file patent applications for these inventions;
- we may fail to comply with procedural, documentary, fee payment, and other similar provisions during the patent application process, which can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights;

- future product candidates may not be patentable;

- others will claim rights or ownership with regard to patents and other proprietary rights that we hold or license;

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- delays in development, testing, clinical trials, and regulatory review may reduce the period of time during which we could market our product candidates under patent protection; and

- we may fail to timely apply for patents on our technologies or products.

While we apply for patents covering our technologies and products, as we deem appropriate, many pharmaceutical companies and university and research institutions already have filed patent applications or have received patents in our areas of product development. These entities applications, patents, and other intellectual property rights may conflict with patent applications to which we have rights and could prevent us from obtaining patents or could call into question the validity of any of our patents, if issued, or could otherwise adversely affect our ability to develop, manufacture, or commercialize our proposed hormone therapy products. In addition, if third parties file patent applications in the technologies that also claim technology to which we have rights, we may have to participate in interference, derivation, or other proceedings with the U.S. Patent and Trademark Office, or USPTO, or applicable foreign patent regulatory authorities to determine our rights in the invention, which may be time-consuming and expensive. Moreover, issued patents may be challenged during post-grant proceedings brought by a third party or the USPTO, or in foreign countries, or in the courts. These proceedings may result in loss of patent claims or adverse changes to the scope of the claims.

If we or our licensors or strategic partners fail to obtain and maintain patent protection for our products, or our proprietary technologies and their uses, companies may be dissuaded from collaborating with us. In such event, our ability to commercialize our proposed hormone therapy products or future product candidates, if approved, may be threatened, we could lose our competitive advantage and the competition we face could increase, all of which could adversely affect our business, financial condition, results of operations, and prospects.

In addition, mechanisms exist in much of the world permitting some form of challenge by generic drug marketers to our patents prior to, or immediately following, the expiration of any regulatory exclusivity, and generic companies are increasingly employing aggressive strategies, such as at risk launches to challenge our patent rights.

Our business also may rely on unpatented proprietary technology, know-how, and trade secrets. If the confidentiality of this intellectual property is breached, it could adversely impact our business.

If we are sued for infringing intellectual property rights of third parties, litigation will be costly and time consuming and could prevent or delay us from developing or commercializing our product candidates.

Our commercial success depends, in part, on our not infringing the patents and proprietary rights of other parties and not breaching any collaboration or other agreements we have entered into with regard to our technologies and products. We are aware of numerous third-party U.S. and non-U.S. issued patents and pending applications that exist in the areas of hormone therapy, including compounds, formulations, treatment methods, and synthetic processes that may be applied towards the synthesis of hormones. Patent applications are confidential when filed and remain confidential until publication, approximately 18 months after initial filing, while some patent applications remain unpublished until issuance, if at all. As such, there may be other third-party patents and pending applications of which we are currently unaware with claims directed towards composition of matter, formulations, methods of manufacture, or methods for treatment related to the use or manufacture of our products or product candidates. Therefore, we cannot ever know with certainty the nature or existence of every third-party patent filing. We cannot provide assurances that we or our partners will be free to manufacture or market our product candidates as planned, or that we or our licensors and partners patents will not be opposed or litigated by third parties. If any third-party patent was held by a court of competent jurisdiction to cover aspects of our materials, formulations, methods of manufacture, or methods of treatment related to the use or manufacture of any of our product candidates, the holders of any such patent may be able to block our ability to develop and commercialize the applicable product candidate unless we obtained a license or until such patent expires or is finally determined to be held invalid or unenforceable. There can be no assurances that we will be able to obtain a license to such patent on favorable terms or at all. Failure to obtain such license may have a material adverse effect on our business.

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There is a substantial amount of litigation involving intellectual property in the pharmaceutical industry generally. If a third party asserts that we infringe its patents or other proprietary rights, we could face a number of risks that could adversely affect our business, financial condition, results of operations, and prospects, including the following:

- infringement and other intellectual property claims, which would be costly and time-consuming to defend, whether or not we are ultimately successful, which in turn could delay the regulatory approval process, consume our capital, and divert management s attention from our business;
- substantial damages for past infringement, which we may have to pay if a court determines that our products or technologies infringe a competitor s patent or other proprietary rights;
- a court prohibiting us from selling or licensing our technologies or future products unless the third party licenses its patents or other proprietary rights to us on commercially reasonable terms, which it is not required to do;
- if a license is available from a third party, we may have to pay substantial royalties or lump sum payments or grant cross licenses to our patents or other proprietary rights to obtain that license; and
- redesigning our products so they do not infringe, which may not be possible or may require substantial monetary expenditures and time.

We are party from time to time to legal proceedings relating to our intellectual property, and third parties in the future may file claims asserting that our technologies, processes, or products infringe on their intellectual property. We cannot predict whether third parties will assert these claims against us or our strategic partners or against the licensors of technology licensed to us, or whether those claims will harm our business. In addition, the outcome of intellectual property litigation is subject to uncertainties that cannot be adequately quantified in advance. If we or our partners were to face infringement claims or challenges by third parties relating to our product candidates, an adverse outcome could subject us to significant liabilities to such third parties, and force us or our partners to curtail or cease the development of some or all of our product candidates, which could adversely affect our business, financial condition, results of operations, and prospects.

We may be required to file lawsuits or take other actions to protect or enforce our patents or the patents of our licensors, which could be expensive and time consuming.

Competitors may infringe our patents or the patents of our licensors. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming. Moreover, there can be no assurance that we will have sufficient financial or other resources to file and pursue such infringement claims, which typically last for years before they are concluded. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to pharmaceuticals, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally.

In addition, in an infringement proceeding, a court may decide that a patent of ours or our licensors is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents, or those of our licensors, do not cover the technology in question or on other grounds. An adverse result in any litigation or defense proceedings could put one or more of our patents, or those of our licensors, at risk of being invalidated, held unenforceable, or interpreted narrowly and could put our patent applications, or those of our licensors, at risk of not issuing. Moreover, we may not be able to prevent, alone or with our licensors, misappropriation of our proprietary rights, particularly in countries where the laws may not protect those rights as fully as in the United States. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, if securities analysts or investors perceive public announcements of the results of hearings, motions, or other interim proceedings or developments to be negative, the price of our common stock could be adversely affected. The occurrence of any of the above could adversely affect our business, financial condition, results of operations, and prospects.

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If we are unable to protect the confidentiality of certain information, the value of our products and technology could be materially adversely affected.

We also rely on trade secrets, know-how, and continuing technological advancement to develop and maintain our competitive position. To protect this competitive position, we regularly enter into confidentiality and proprietary information agreements with third parties, including employees, independent contractors, suppliers, and collaborators. We cannot, however, ensure that these protective arrangements will be honored by third parties, and we may not have adequate remedies if these arrangements are breached. In addition, enforcement of claims that a third party has illegally obtained and is using trade secrets, know-how, or technological advancements is expensive, time-consuming, and uncertain. Non-U.S. courts are sometimes less willing than U.S. courts to protect this information. Moreover, our trade secrets, know-how, and technological advancements may otherwise become known or be independently developed by competitors in a manner providing us with no practical recourse against the competing parties. If any such events were to occur, they could adversely affect our business, financial condition, results of operations, and prospects.

We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

As is common in the pharmaceutical industry, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. We may be subject to claims that these employees, or we, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Such claims may lead to material costs for us, or an inability to protect or use valuable intellectual property rights, which could adversely affect our business, financial condition, results of operations, and prospects.

Risks Related to this Offering and Ownership of Our Common Stock

The market price of our common stock may be highly volatile, and you could lose all or part of your investment.

The trading price of our common stock is likely to be volatile. This volatility may prevent you from being able to sell your shares at or above the price you paid for your shares. Our stock price could be subject to wide fluctuations in response to a variety of factors, which include the following:

- any delay in commencement of our Phase 3 clinical trials for our proposed hormone therapy products;
- adverse results or delays in clinical trials;
- any delay in filing our NDAs for our proposed hormone therapy products and any adverse development or perceived adverse development with respect to the FDA s review of the NDAs, including the FDA s issuance of a refusal to file letter or a request for additional information;
- changes in laws or regulations applicable to our products or proposed products, including clinical trial requirements for approvals;
- unanticipated serious safety concerns related to the use of our proposed hormone therapy products;
- a decision to initiate a clinical trial, not to initiate a clinical trial, or to terminate an existing clinical trial;
- the inability to obtain adequate clinical supply for our proposed hormone therapy products or the inability to do so at acceptable prices;

- adverse regulatory decisions;
- the introduction of new products or technologies offered by us or our competitors;
- the effectiveness of our or our potential strategic partners commercialization efforts;
- developments concerning our sources of manufacturing supply and any commercialization strategic partners;
- the perception of the pharmaceutical industry by the public, legislatures, regulators, and the investment community;
- disputes or other developments relating to proprietary rights, including patents, litigation matters, and our ability to obtain patent protection for our technologies;
- the inability to effectively manage our growth;
- actual or anticipated variations in quarterly operating results;
- the failure to meet or exceed the estimates and projections of the investment community;

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- Risks Related To Our Business

Our success depends on attracting and retaining highly skilled and qualified technical and consulting personnel.

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

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Our success depends in a large part on the continuing service of key personnel.

Changes in management could have an adverse effect on our business. We are dependent upon the active participation of several key management personnel and will also need to recruit additional management in order to expand according to our business plan. The failure to attract and retain additional management or personnel could have a material adverse effect on our operating results and financial performance.

Our operating results are substantially dependent on the development and acceptance of new products and technology innovations.

Our future success may depend on our ability to develop new and lower cost solutions for existing and new markets and for customers to accept those solutions. We must introduce new products in a timely and cost-efficient manner, and we must secure production orders for those products from our customers. The development of new products is a highly complex process, and we historically have experienced delays in completing the development and introduction of new products. Some or all of those technologies or products may not successfully make the transition from the research and development phase. Even when we successfully complete a research and development effort with respect to a particular product or technology, it may fail to gain market acceptance. The successful development and introduction of these products depends on a number of factors, including the following:

achievement of technology advances required to make commercially viable devices;

the accuracy of our predictions of market requirements;

acceptance of our new product designs;

acceptance of new technology in certain markets;

the availability of qualified research and development and product development personnel;

our timely completion of product designs and development;

our ability and available resources to expand sales;

our ability to develop repeatable processes to manufacture new products in sufficient quantities and at low enough costs for commercial sales;

our customers' ability to develop competitive products incorporating our products; and

acceptance of our customers' products by the market.

If any of these or other factors become problematic, we may not be able to develop and introduce these new products in a timely or cost-effective manner.

If government agencies or companies discontinue or curtail their funding for our research and development programs, our business may suffer.

Changes in federal budget priorities could adversely affect our contract and display product revenue. Historically, U.S. government agencies have funded a significant part of our research and development activities. Our funding has the risk of being

redirected to other programs when the government changes budget priorities, such as in time of war or for other reasons. Government contracts are also subject to the risk that the government agency may not appropriate and allocate all funding contemplated by the contract. In addition our government contracts generally permit the contracting authority to terminate the contract for the convenience of the government. The full value of the contracts would not be realized if they were prematurely terminated. We may be unable to incur sufficient allowable costs to generate the full estimated contract values. Furthermore, the research and

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development and product procurement contracts of the customers we supply may be similarly impacted. If the government funding is discontinued or reduced, our ability to develop or enhance products could be limited and our business results or operations and financial conditions could be adversely affected.

Our business depends on new products and technologies.

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

We generally do not have long-term contracts with our customers.

Our business has primarily operated on the basis of short-term purchase orders. We receive some longer term purchase agreements and procurement contracts, but we cannot guarantee that we will continue to do so. Our current purchase agreements, depending on the circumstances, can be cancelled or revised without penalty. We plan production primarily on the basis of internally generated forecasts of demand based on communications with customers, and available industry data which makes it difficult to accurately forecast revenues. If we fail to accurately forecast operating results, our business may suffer and the market price of our shares may decline.

Our business strategy may fail if we cannot continue to form strategic relationships with companies that manufacture and use products that could incorporate our active matrix OLED technology.

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

Our business depends to some extent on international transactions.

We purchase needed materials and subcontract manufacturing processes from companies located abroad and may be adversely affected by political and currency risk, as well as the additional costs of doing business with foreign entities. Some customers in other countries have longer receivable periods as is customary in those countries. In addition, many of the foreign OEMs that are the most likely long-term purchasers of our microdisplays expose us to additional political and currency risk. We may find it necessary to locate manufacturing facilities abroad to be closer to our customers which could expose us to various risks, including management of a multi-national organization, the complexities of complying with foreign laws and customs, political instability and the complexities of taxation in multiple jurisdictions.

Our business may expose us to product liability claims.

Our business may expose us to potential product liability claims. Although no such claims have been brought against us to date, and to our knowledge no such claim is threatened or likely, we may face liability to product users for damages resulting from the faulty design or manufacture of our products. While we plan to maintain product liability insurance coverage, there can be no assurance

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that product liability claims will not exceed coverage limits, fall outside the scope of such coverage, or that such insurance will continue to be available at commercially reasonable rates, if at all.

Our business is subject to environmental regulations and possible liability arising from potential employee claims of exposure to harmful substances used in the development and manufacture of our products.

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

Provisions in certain of our commercial agreements and our military business may prevent or delay an acquisition of our Company, which could decrease the market value of our common stock.

Provisions in certain of our commercial agreements may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable. In addition, as a contractor and subcontractor to the U.S. federal government, we are subject to and must comply with various government regulations that impact our operating costs, profit margins and the internal organization and operation of our business. As a result, these provisions and business could limit the price that strategic investors may be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

Some of our business is subject to U.S. government procurement laws and regulations.

We must comply with certain laws and regulations relating to the formation, administration and performance of federal government contracts, including the Export Administration Regulations (EAR) and the International Traffic in Arms Regulations (ITAR). These laws and regulations affect how we conduct business under our federal government contracts, including the business that we do as a subcontractor. In complying with these laws and regulations, we may incur additional costs, and non-compliance may lead to the assessment of fines and penalties, including contractual damages, or the loss of business.

Our international sales and operations are subject to export laws and regulations.

We must comply with all applicable export control laws, including the EAR and ITAR. Certain of our products may be deemed to be controlled for export by the U.S. Commerce Department's Bureau of Industry and Security under the EAR or by the U.S. State's Directorate of Defense Trade Controls (DDTC) under the ITAR. We believe certain of our new products with both high brightness and high resolution will be classified as defense articles and licenses from the DDTC will be required for exports. Failure to comply with these export control laws can lead to severe penalties, both civil and criminal, and can include debarment from contracting with the U.S. government.

Economic conditions may adversely impact our business, operating results and financial condition.

Economic conditions and market instability may affect our customers and suppliers. Any adverse financial or economic impact to our customers may impact their ability to pay timely, or result in their inability to pay. It may also impact their ability to fund future purchases, or increase the sales cycles which could lead to a reduction in revenue and accounts receivable. Our suppliers may increase their prices or may be unable to supply needed raw materials on a timely basis which could result in our

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inability to meet customers' demand or affect our gross margins. Our suppliers may also impose more stringent payment terms on us. The timing and nature of any recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not be materially and adversely affected.

We may be affected by recent tax legislation.

On December 22, 2017, the President signed into law an extensive overhaul of the U.S. federal tax code called the Tax Cuts and Jobs Act, or the Tax Legislation. The Tax Legislation makes significant changes to the taxation of individuals and corporations, which could significantly affect our business, our operations, our financial condition, or the taxation of our stockholders and warrant holders. Potential investors should consult their tax advisors about the Tax Legislation and its potential impact on making an investment in the Company.

Risks Related To This Offering And Our Common Stock And The Warrants

The market price of our common stock may be volatile.

The market price of our common stock has been subject to wide fluctuations. During our four most recently completed fiscal quarters, the closing price of our stock ranged from a high of $2.85 in January 2017 to a low of $1.55 in December 2017. The market price of our common stock in the future is likely to continue to be subject to wide fluctuations in response to various factors, including, but not limited to, the following:

- variations in our operating results and financial conditions;
- actual or anticipated announcements of technical innovations, commercial partnerships, new product developments, or design wins by us or our competitors;
- general conditions in the semiconductor and flat panel display industries; and
- worldwide economic and financial conditions.

In addition, the public stock markets have experienced extreme price and volume fluctuations that have particularly affected the market price for many technology companies and that have often been unrelated to the operating performance of these companies. The broad market fluctuations and other factors may continue to adversely affect the market price of our common stock.

There is no public market for the warrants to purchase common stock being offered in this offering.

There is no established public trading market for the warrants being offered in this offering, and we do not expect a market to develop. In addition, we do not intend to apply for listing of the warrants on any national securities exchange or other trading market. Without an active market, the liquidity of the warrants will be limited.

Holders of our warrants will have no rights as a common stockholder until such holders exercise their warrants and acquire our common stock.

Until you acquire shares of our common stock upon exercise of your warrants, you will have no rights with respect to the shares of our common stock underlying such warrants, except as set forth in the warrants. Upon exercise of your warrants, you will be entitled to exercise the rights of a common stockholder only as to matters for which the record date occurs after the exercise date.

The warrants may never have any value.

The warrants comprising part of the fixed combinations being sold in this offering, which have an exercise price of $ per whole share of common stock, will expire on the five year anniversary of

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the initial exercise date. In the event our common stock price does not exceed the per share exercise price of the warrants during the period when the warrants are exercisable, the warrants will not have any value.

The market price of our common stock may be adversely affected by market conditions affecting the stock markets in general, including price and trading fluctuations on the NYSE American.

Market conditions may result in volatility in the level of, and fluctuations in, market prices of stocks generally and, in turn, our common stock and sales of substantial amounts of our common stock in the market, in each case being unrelated or disproportionate to changes in our operating performance. Concerns over global stability and economic conditions in the United States and abroad have contributed to the extreme volatility of the markets which may have an effect on the market price of our common stock.

The substantial number of shares that are or will be eligible for sale could cause our common stock price to decline even if we are successful.

Sales of significant amounts of common stock in the public market, or the perception that such sales may occur, could materially affect the market price of our common stock. These sales might also make it more difficult for us to sell equity or equity-linked securities in the future at a time and price that we deem appropriate. As of September 30, 2017, we have outstanding common shares of 34,972,589 plus (i) options to purchase 5,142,448 shares, (ii) warrants to purchase 5,081,449 shares and (iii) convertible preferred stock to acquire 7,545,333 shares of common stock. If a significant number of our outstanding options are exercised, our stockholders may experience a substantial dilution in their percentage ownership of our company.

You will experience immediate and substantial dilution in the net tangible book value per share of the common stock you purchase.

Since the offering price per fixed combination of the securities being offered is substantially higher than the net tangible book value per share of our common stock, you will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. Based on the assumed offering price of $1.55 per fixed combination and the sale of shares of our common stock in this offering and attributing no value to the warrants sold in this offering, if you purchase shares of common stock in this offering, you will suffer immediate and substantial dilution of $0.87 per share in the net tangible book value of the common stock. In the event that you exercise your warrants, you will experience additional dilution to the extent that the exercise price of those warrants is higher than the book value per share of our common stock. See the section entitled "Dilution" below for a more detailed discussion of the dilution you would incur if you purchase securities in this offering.

Future issuances of our common stock could lower our stock price and dilute the interests of existing stockholders.

We may issue additional shares of our common stock in the future, including shares of our common stock in connection with acquisitions, strategic partnerships or joint ventures that we believe will allow us to complement our growth strategy, increase market share in our current markets and expand into adjacent markets, broaden our technology and intellectual property, and strengthen our relationships with distributors and OEMs. Any future issuances of shares of our common stock, including in connection with any future acquisition, partnership or joint venture, may result in the dilution of existing stockholders to the extent we are required to issue equity securities.

The issuance of a substantial amount of common stock could have the effect of substantially diluting the interests of our current stockholders. In addition, the sale of a substantial amount of

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common stock in the public market, either in the initial issuance or in a subsequent resale by investors who acquired such common stock in a private placement, could have a material adverse effect on the market price of our common stock.

Concentration of ownership of our stock may enable one stockholder or a small number of stockholders to significantly influence matters requiring stockholder approval.

As of December 31, 2017, Stillwater Holdings LLC (f/k/a Stillwater LLC) owned approximately 16% of our outstanding voting stock, Flat Creek Fiduciary Management, as trustee of a trust which the sole member of Stillwater Holdings LLC has investment control, owned approximately 10% of our outstanding voting stock, Stillwater Trust LLC owned 5% of our outstanding voting stock and the sole member of Stillwater Holdings LLC is the investment manager of Rainbow Gate Corporation, which owned approximately 4% of our outstanding voting stock. Together such stockholders owned approximately 36% of our outstanding voting stock. As a result, these stockholders, if they act together, may be able to exert a significant degree of influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Further, if these stockholders act together with another stockholder, Ginola Limited, which has common directors with Mount Union Corp., Chelsea Trust Company and Crestflower Corporation, as of December 31, 2017, they would collectively have represented approximately 42% of our outstanding voting stock. This concentration of ownership may facilitate or hinder a change of control and might affect the market price of our common stock. Furthermore, the interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders. Nevertheless, the ability to influence the election of our Board of Directors or otherwise have influence does not modify the fiduciary duties of our Board of Directors to represent the interests of all stockholders.

We will have broad discretion in how we use the net proceeds of this offering. We may not use these proceeds effectively, which could affect our results of operations and cause our stock price to decline.

We will have considerable discretion in the application of the net proceeds of this offering. We currently intend to use the net proceeds from this offering for working capital, capital expenditure and general corporate purposes. We have not yet determined the amount of net proceeds to be used specifically for any particular purpose or the timing of these expenditures. Accordingly, our management will have significant discretion and flexibility in applying the net proceeds from this offering. Pending any use, as described above, we intend to invest the net proceeds in high-quality, short-term, interest-bearing securities.

As a result, investors will be relying upon management's judgment with only limited information about our specific intentions for the use of the net proceeds of this offering. We may use the net proceeds for purposes that do not yield a significant return or any return at all for our stockholders. In addition, pending their use, we may invest the net proceeds from this offering in a manner that does not produce income or that loses value.

We do not intend to pay cash dividends. We last paid a dividend on our capital stock in 2012 and we do not anticipate paying any dividends in the foreseeable future. Consequently, any gains from an investment in our securities will likely depend on whether the price of our common stock increases.

We have not paid dividends on any of our capital stock since 2012. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, our ABL Facility prohibits us from paying cash dividends on our common stock. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future. Consequently, in the foreseeable future, you will likely only experience a gain from your investment in our securities if the price of our common stock increases.

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A provision in our certificate of incorporation and by-laws may prevent or delay an acquisition of our Company, which could decrease the market value of our common stock.

Provisions of Delaware law, our certificate of incorporation and our by-laws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable. These provisions may also prevent or delay attempts by stockholders to replace or remove our current management or members of our Board of Directors. These provisions include:

- limitations on the removal of directors;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings;
- the ability of our Board of Directors to make, alter or repeal our by-laws; and
- the authority of our Board of Directors to issue preferred stock with such terms as our Board of Directors may determine.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which limits business combination transactions with stockholders of 15% or more of our outstanding voting stock that our Board of Directors has not approved. These provisions and other similar provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation. These provisions may apply even if some stockholders may consider the transaction beneficial to them. As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a premium over the then current market price for our common stock.

We are subject to significant corporate regulation as a public company and failure to comply with all applicable regulations could subject us to liability or negatively affect our stock price.

As a publicly traded company, we are subject to a significant body of regulation, including the Sarbanes-Oxley Act of 2002. While we have developed and instituted a corporate compliance program based on what we believe are the current best practices in corporate governance and continue to update this program in response to newly implemented or changing regulatory requirements, we cannot provide assurance that we are or will be in compliance with all potentially applicable corporate regulations. For example, we cannot provide assurance that, in the future, our management will not find a material weakness in connection with its annual review of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We also cannot provide assurance that we could remediate any such weakness; our failure to do so would prevent our management from concluding that our internal control over financial reporting as of the end of our fiscal year is effective. If we fail to comply with any of these regulations, we could be subject to a range of regulatory actions, fines or other sanctions or litigation. If we must disclose any material weakness in our internal control over financial reporting, our stock price could decline.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, that are based on our management's belief and assumptions and on information currently available to our management. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect our results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under the heading "Risk Factors" in this prospectus and in any free writing prospectus. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance. You should read this prospectus and any free writing prospectus, including the documents that we have filed as exhibits to the registration statement, of which this prospectus is part, completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements. In particular, forward-looking statements in this prospectus or any free writing prospectus about:

- 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, including our entry in the consumer market;
- our potential exposure to product liability claims;
- our ability to manufacture suitable products at competitive costs;
- our ability to successfully implement new equipment on our manufacturing line;
- 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;
- our anticipated cash needs and our estimates regarding our capital requirements;

our needs for additional financing, as well as our ability to obtain such additional financing on reasonable terms; and

other risks and uncertainties referenced under "Risk Factors" above and in any applicable free writing prospectus.

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Forward-looking statements contained in this prospectus or any free writing prospectus represents our views only as of the respective dates on which such statements were made. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. Therefore, these forward-looking statements do not represent our views as of any date other than the date on which they were made.

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USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately $8.9 million (or approximately $10.3 million if the underwriters' over-allotment option is exercised in full) from the sale of the securities offered by us in this offering, based on the assumed combined public offering price of $1.55 per share of common stock and warrant (the last reported sale price of our common stock on the NYSE American on January 19, 2018), and after deducting underwriting discounts and commissions and estimated offering expenses payable by us for this offering. We intend to use the net proceeds from this offering for working capital and general corporate purposes.

We have not yet determined the amount of net proceeds to be used specifically for any particular purpose or the timing of these expenditures. Accordingly, our management will have significant discretion and flexibility in applying the net proceeds from this offering. Pending any use, as described above, we intend to invest the net proceeds in high-quality, short-term, interest-bearing securities.

Each $1.00 increase (decrease) in the assumed public offering price of $1.55 per share would increase (decrease) the net proceeds to us from this offering by approximately $6.0 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us for this offering, assuming that the number of shares and warrants to purchase shares of common stock offered by us in this offering remains the same.

PRICE RANGE OF COMMON STOCK

Our common stock trades on the NYSE American under the symbol "EMAN". The following table shows the high and low sale prices per share of our common stock as reported on NYSE American for the periods indicated.

	High	Low
Year ending December 31, 2018		
First quarter (through January 19, 2018)	$ 1.95	$ 1.55
Year ending December 31, 2017		
First quarter	$ 2.85	$ 2.10
Second quarter	3.00	2.25
Third quarter	2.65	1.95
Fourth quarter	2.30	1.55
Year ended December 31, 2016		
First quarter	2.08	1.31
Second quarter	2.03	1.68
Third quarter	3.07	1.97
Fourth quarter	2.79	1.95

On January 19, 2018, the last reported sale price for our common stock on NYSE American was $1.55 per share. As of January 17, 2018, there were approximately 250 record holders of our common stock. This does not include persons whose stock is in nominee or "street name" accounts through brokers.

DIVIDEND POLICY

We do not anticipate paying any dividends in the foreseeable future. Future decisions to pay cash dividends are at the discretion of our Board of Directors. We currently intend to retain any future profits for use in the development and expansion of our business and for general corporate purposes. In addition, our ABL Facility prohibits us from paying cash dividends on our common stock.

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CAPITALIZATION

The following table sets forth our cash and capitalization as of September 30, 2017:

- on an actual basis; and
- on an as adjusted basis to give effect to our sale in this offering of shares of common stock and warrants to purchase shares of common stock at the assumed public offering price of $1.55 per combination and after deducting underwriting discounts and commissions and estimated offering expenses payable by us for this offering.

You should read this table in conjunction with "Use of Proceeds" as well as our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, including the related notes, included in this prospectus.

	As of September 30, 2017	
	Actual	As Adjusted
	(unaudited) (amounts in thousands, except share data)	
Cash, cash equivalents	$ 1,964	$ 10,886
Revolving credit facilities, net	920	920
Stockholders' equity:		
Series B Convertible Preferred stock, (liquidation preference of $5,659,000) stated value $1,000 per share, $.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2017, actual and as adjusted		
Common stock, $.001 par value: authorized 200,000,000 shares, issued 34,972,589 shares as of September 30, 2017(1)	35	41
Additional paid-in capital	246,312	255,228
Accumulated deficit	(226,248)	(226,248)
Treasury stock, 162,066 shares as of September 30, 2017	(500)	(500)
Total stockholders' equity	19,599	28,521
Total capitalization	$ 20,519	$ 29,441

(1) The number of shares of our common stock in the table above excludes:

- 5,142,448 shares of our common stock issuable upon the exercise of stock options outstanding as of September 30, 2017, at an average exercise price of $2.96 per share;

7,545,333 shares of common stock issuable upon conversion of our outstanding Series B Convertible Preferred Stock;

2,947,949 shares of our common stock issuable upon the exercise of warrants issued in August 2016 outstanding as of September 30, 2017, at an average exercise price of $2.60 per share; 383,500 shares of our common stock issuable upon the exercise of warrants issued in December 2015 outstanding as of September 30, 2017, at an average exercise price of $2.05 per share; 100,000 shares of our common stock issuable upon the exercise of warrants issued in March 2017 outstanding as of September 30, 2017, at an average exercise price of $2.25 per share and 1,650,000 shares of our common stock issuable upon the exercise of warrants issued in May 2017 outstanding as of September 30, 2017, at an average exercise price of $2.45 per share;

99,000 shares of our common stock issuable upon the exercise of warrants issued in May 2017 outstanding as of September 30, 2017, at an exercise price of $2.60 per share; and

2,580,645 shares of our common stock issuable upon the exercise of warrants offered hereby.

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DILUTION

If you invest in our common stock and warrants, you will experience dilution to the extent of the difference between the public offering price per fixed combination (attributing no value to the warrants) and the net tangible book value per share of our common stock immediately after this offering.

Our net tangible book value as of September 30, 2017, was approximately $19.5 million, or $0.56 per share of our common stock, based upon shares of our common stock outstanding as of that date. Net tangible book value per share is determined by dividing our total tangible assets, less total liabilities, by the number of shares of our common stock outstanding as of September 30, 2017. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock and warrants in this offering and the net tangible book value per share of our common stock immediately after this offering.

After giving effect to the sale of 6,451,613 shares of our common stock and warrants to purchase up to 2,580,645 shares of common stock in this offering at the assumed public offering price of $1.55 per fixed combination and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us for this offering, and excluding the proceeds, if any, from the exercise of warrants in this offering, our as adjusted net tangible book value as of September 30, 2017, would have been approximately $28.4 million, or $0.68 per share. This represents an immediate increase in net tangible book value of $0.12 per share to existing stockholders and immediate dilution in net tangible book value of $0.87 per share to new investors purchasing our common stock and warrants in this offering at the public offering price. The following table illustrates this dilution on a per share basis:

	(unaudited) (amounts in thousands except share data)	
Assumed public offering price per fixed combination		$ 1.55
Net tangible book value per share as of September 30, 2017	$ 0.56	
Increase in net tangible book value per share attributable to new investors	$ 0.12	
As adjusted net tangible book value per share as of September 30, 2017 after giving effect to this offering		$ 0.68
Dilution in net tangible book value per share to investors in this offering		$ 0.87

Each $0.10 increase (decrease) in an assumed public offering price of $1.55 per share, the last reported sale price of our common stock on the NYSE American on January 19, 2018, would increase (decrease) dilution per share to new investors by approximately $0.01 after deducting underwriting discounts and commissions and estimated offering expenses payable by us for this offering.

If the underwriters exercise in full their over-allotment option at an assumed public offering price of $1.55 per share, the last reported sale price of our common stock on the NYSE American on January 19, 2018, the as adjusted net tangible book value after this offering would be $0.70 per share of our common stock, representing an increase of as adjusted net tangible book value of $0.14 per share to our existing stockholders and an immediate dilution of $0.85 per share to new investors purchasing shares in this offering.

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The foregoing table and discussion is based on 34,972,589 shares outstanding as of September 30, 2017 and excludes:

- 5,142,448 shares of our common stock issuable upon the exercise of stock options outstanding as of September 30, 2017, at an average exercise price of $2.96 per share;

- 7,545,333 shares of common stock issuable upon conversion of our outstanding Series B Convertible Preferred Stock;

- 2,947,949 shares of our common stock issuable upon the exercise of warrants issued in August 2016 outstanding as of September 30, 2017, at an average exercise price of $2.60 per share; 383,500 shares of our common stock issuable upon the exercise of warrants issued in December 2015 outstanding as of September 30, 2017, at an average exercise price of $2.05 per share; 100,000 shares of our common stock issuable upon the exercise of warrants issued in March 2017 outstanding as of September 30, 2017, at an average exercise price of $2.25 per share and 1,650,000 shares of our common stock issuable upon the exercise of warrants issued in May 2017 outstanding as of September 30, 2017, at an average exercise price of $2.45 per share;

- 99,000 shares of our common stock issuable upon the exercise of warrants issued in May 2017 outstanding as of September 30, 2017, at an exercise price of $2.60 per share; and

- 2,580,645 shares of our common stock issuable upon the exercise of warrants offered hereby.

The above illustration of dilution per share to investors participating in this offering assumes no exercise of outstanding options to purchase our common stock or outstanding warrants to purchase shares of our common stock. The exercise of outstanding options and warrants having an exercise price less than the offering price will increase dilution to new investors. In addition, we may choose to raise additional capital depending on market conditions, our capital requirements and strategic considerations, even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

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

Overview

We design, develop, manufacture and market organic light emitting diode (OLED) 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 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 higher contrast, lower power requirements, less weight, fast video speed without flicker, wide operating temperature 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 also believe that our direct patterning technology gives us a substantial advantage over other OLED microdisplays because it allows us to produce microdisplays with the high brightness required for VR and AR. Traditional OLED microdisplays utilize white emitting OLED with color filters that lessen the intensity of emitted light by as much as 85%, significantly reducing brightness. Microdisplays manufactured by direct patterning do not require color filters to achieve color variations and allow for the application of more efficient OLED structures which achieve high brightness.

We have devoted significant resources to the development and commercial launch of our OLED microdisplay products into military, aviation, consumer, enterprise, industrial and medical applications. First sales of our SVGA+ microdisplay began in May 2001 and we launched the SVGA-3D microdisplay in February 2002. In 2008, the SXGA microdisplay became our first digital display and in 2011, we introduced the VGA OLED-XL, our lowest powered microdisplay, and the WUXGA OLED-XL which exceeds 1080p HD (High Definition) resolution.

We introduced new products throughout 2014, including a digital SVGA microdisplay and in 2016, a smaller pixel SXGA 096 display that provides for higher resolutions and increased functionality at the same compact size as the SVGA+ microdisplay. Other products such as the SXGA120 and WUXGA have also undergone upgrades improving image quality and manufacturability in 2016 and 2017, while remaining directly compatible with their earlier generation microdisplays.

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These products are being applied or considered for near-eye and headset applications in products such as thermal imagers, night vision goggles, aviation helmets, virtual reality and augmented reality devices to be manufactured by original equipment manufacturer (OEM) customers. In addition to marketing OLED-on-silicon microdisplays as components, we also offer microdisplays as an integrated package, which we call microviewer that includes a compact lens for viewing the microdisplay and electronic interfaces to convert the signal from our customer's product into a viewable image on the microdisplay.

We have developed our own intellectual property portfolio that includes patents, over 15 years of manufacturing know-how and proprietary technologies to create high performance OLED-on-silicon. We believe our technology, intellectual property portfolio and position in the marketplace give us a leadership position in OLED and OLED-on-silicon microdisplay technology. We believe that we are one of only a few companies to market and produce significant quantities of high resolution, small molecule OLED-on-silicon microdisplays.

We believe that a key growth opportunity for us is the consumer electronic OEM market. Our strategy for this segment is to secure channels to this market, including licensing of our direct patterning technology and partnering in the mass production of microdisplays. We believe that our direct patterning technology is a key differentiator for enabling next generation AR/ VR hardware for the consumer and enterprise segments because of the brightness and the pixel density afforded by the technology.

Our direct patterning technology is being optimized and significant improvements have been achieved during 2017, including lowering the power consumption by 20 percent for the same brightness and also demonstrating a maximum brightness of more than 5,300 cd/m2 on a new advanced backplane 2Kx2K microdisplay. We believe that this high brightness OLED-on-silicon technology is gaining attention in the AR/VR industry, which requires high brightness displays, and has contributed to our signing an agreement with a Tier One consumer electronics company in October 2017.

During 2016, we developed handheld and wearable products that provide consumers' night vision capability at prices we believe are attractive to the mass market. Two products, BlazeSpark and BlazeTorch, were introduced in early 2017. The BlazeSpark is a smart phone attachment that provides for night vision of activities and, through a companion application, allows the user to record and live stream the content. The BlazeTorch is a wearable device that will utilize our advanced OLED microdisplay technology to provide hands-free operation during night-time activities with the capability to record the content. We have established the supply chain utilizing a variety of domestic and international suppliers and two contract manufacturers located in Asia.

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

New Business

During 2017, we made progress towards our goals of securing new U.S. military programs while expanding our presence in foreign military, commercial and industrial markets. Under the U.S. Army's Enhanced Night Vision Goggle III (ENVG III) and Family of Weapon Sight-Individual (FWS-I)

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programs, delivery of displays for the Low Rate Initial Production (LRIP) phase of both programs began in the fourth quarter of 2016 and has continued into 2017. ENVG III is scheduled to be in production through 2021 with follow-on sustaining orders through 2032. FWS-I is scheduled to be in production through 2020 with follow-on sustaining orders through 2031. We also delivered displays for prototype systems for FWS-Crew Served program to two defense prime contractors.

During 2016 and 2017, we achieved the following:

Awarded a follow-on contract worth over $3.7 million for the U.S. Army's Enhanced Night Vision Goggle III (ENVGIII) and Family of Weapons Sight-Individual (FWS-I) programs.

Received a multi-year $1.7 million order from a European military prime contractor to provide displays for a see-through, AR head-mounted displays to support airborne and ground missions' requirements.

Received a $1.5 million order to support the Light Weight Thermal Sight (LWTS) program with deliveries expected to begin in December 2017 and continuing through 2018.

Received funding for the design and development of support hardware that will be integral to new system designs utilizing eMagin's 2K × 2K microdisplays with the hardware anticipated to be available to defense and commercial integrators in mid-2018.

Completed a Critical Design Review (CDR) in October 2017 with a major aviation prime contractor for an OLED upgrade to a fixed wing production helmet.

Continued to support a major U.S. Army helicopter helmet upgrade program to retrofit high brightness microdisplays into the current fielded helmet. CDR was completed in August of 2017 and Testing Readiness Review (TRR) was completed in December 2017. Additional OLED display, taper, and lens assemblies were delivered for integration and testing in December 2017.

Received a production order from a foreign aviation prime contractor to supply high brightness microdisplays to upgrade an existing fixed wing helmet. It is expected that this will be a multi-year program with initial displays delivered in November 2017 and continuing through the fourth quarter of 2018.

Delivered high brightness 2K × 2K microdisplays to another major foreign contractor for use in a prototype aviation helmet.

Signed a multi-year agreement with a major European defense company that is expected to exceed $3.5 million in display sales through 2018. Additionally, we have been in discussions with a company design staff with respect to a new display to meet requirements of a future defense system. Prototype displays were delivered during the first quarter of 2017.

Continued to deliver displays for a major U.S. Marine Corps contract in support of a common laser range finder program. This contract extends into 2020 and replaces currently fielded equipment that provides 24-hour observation capability.

Delivered our HD-plus resolution WUXGA display to a major medical device company for use in prototyping in their next generation surgical equipment. Prototyping was extended through 2017 with production decision likely

in early 2018.

Supplied displays for a large commercial rifle scope manufacturer which has a leading line of thermal weapon sights and thermal monoculars. We continue to work closely with their production development team to offer higher resolution displays for future products.

Designed and developed two night-vision products for the consumer and commercial markets: BlazeSpark, a smart-phone camera attachment that allows consumers to see clear, high-resolution images in the dark, and BlazeTorch, a wearable device that utilizes our OLED

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microdisplay technology to provide hands-free operation for night-time activities with the capability to record and upload content.

In addition, our development work under the Defense Manufacturing, Science and Technology program progressed during 2016 and the first nine months of 2017. We have met all milestones for the Office of Secretary of Defense-sponsored thirty-month program and believe we are on track to provide essential display technology for all service branches following the program's completion which is expected in May 2018.

On the commercial front, we entered into strategic agreements with multiple Tier One consumer product companies for the design and development of microdisplays for consumer head mounted devices and, together with these companies, negotiated with mass production manufacturers for higher volume production capabilities.

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

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

During the nine months ended September 30, 2017, we experienced an improvement in booking activity as we made progress towards our goals of securing new, and expanding existing, U.S. and foreign military programs while expanding our presence in foreign military, commercial and industrial markets. We expect these efforts to result in greater bookings during the second half of 2017 as a whole than were achieved during the first half of 2017. As of December 31, 2016, we had a backlog of approximately $6.4 million in products ordered for delivery through December 31, 2017. As of December 22, 2017, we had a backlog in products ordered for delivery in 2018 of $11.1 million. Backlog consists of non-binding purchase orders and purchase agreements.

New Technology Development

We are continuing to make progress in our development of very high brightness full-color microdisplays incorporating our proprietary direct patterning technology. Recent improvements in the equipment and further optimization of the processes have led to brightness levels that surpass the threshold requirements for VR/AR applications for Tier One companies and satisfy the requirements of several pending military programs. Our demonstration of more than 5,300 cd/m2 maximum brightness was a milestone towards the application of eMagin's microdisplays to AR/VR headsets.

In conjunction with our development work on direct patterning, we have upgraded our production equipment to further improve display performance and achieve higher production volumes. The upgraded equipment is currently being used to produce parts for various customers.

New Product Development

We continue to develop both small pixel and large area microdisplay architectures for wearable consumer applications. These efforts are being driven by consumer electronics companies and are aimed at leveraging our direct patterning technology for cost effective, large volume production systems.

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Our product development efforts on the 2K × 2K full color RGB microdisplay project that was initiated in 2015 produced functional samples, which were delivered to a leading consumer product company for evaluation in December 2016. This is our largest microdisplay design and expands our product offerings for the consumer and commercial marketplaces. We supplied these 2k × 2k displays to other customers during 2017.

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

Results of Operations

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenues

	Year Ended December 31,		
	2016	**2015**	**Change**
	(in thousands)		
Product	$ 17,265	$ 20,912	$ (3,647)
Contract	$ 3,132	$ 4,230	$ (1,098)
License	$ 1,000	$	$ 1,000
Total revenue, net	$ 21,397	$ 25,142	$ (3,745)

Revenues decreased approximately $3.7 million to revenues of approximately $21.4 million for the year ended December 31, 2016 from approximately $25.1 million for the year ended December 31, 2015, representing a 15% decrease.

Product revenues are comprised primarily of sales of displays, as well as sales of other hardware. In 2016, product revenues decreased approximately $3.6 million to revenues of approximately $17.3 million for the year ended December 31, 2016 from approximately $20.9 million for the year ended December 31, 2015, representing a 17% decrease. The decrease in product revenues in 2016 was primarily due to lower demand from maturing military programs, and a larger proportion of sales of displays with a lower average unit price, partially offset by lower product returns.

Contract revenues are comprised of revenues from research and development (R&D) or non-recurring engineering (NRE) contracts. In 2016, contract revenues decreased $1.1 million to revenues of approximately $3.1 million for the year ended December 31, 2016 from approximately $4.2 million for the year ended December 31, 2015, representing a 26% decrease. The decrease in contract revenues was a result of a decrease in the number of active R&D contracts and the work completed on such contracts.

License revenues for 2016 was comprised of revenue from a $1.0 million non-exclusive intellectual property license for our VR headset technology. In connection with the license agreement, we provided in late 2016 the licensee engineering samples of our 2K × 2K pixel full-color displays for evaluation in their next generation headset development efforts. We had no license revenues in 2015.

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Cost of Revenues

	Year Ended December 31,		
	2016	2015	Change
	(in thousands)		
Product	$ 12,988	$ 15,466	$ (2,478)
Contract	$ 1,967	$ 2,698	$ (731)
License			
Total cost of revenues	$ 14,955	$ 18,164	$ (3,209)

Total cost of revenues are comprised of costs of product revenues and contract revenues. Cost of product revenue includes materials, labor and manufacturing overhead, warranty costs and depreciation related to our products. Cost of contract revenue includes direct and allocated indirect costs associated with performance on the contracts. Total cost of revenues for the year ended December 31, 2016 was $15.0 million as compared to $18.2 million for the year ended December 31, 2015, a decrease of $3.2 million primarily due to the decrease in product and contract revenues. Cost of goods sold as a percentage of revenues was 70% for the year ended December 31, 2016, down slightly from 72% for the year ended December 31, 2015, primarily reflecting the product mix. In addition, there was no cost of revenues in 2016 associated with the license revenues.

The following table outlines product, contract and total gross profit and related gross margins for the years ended December 31, 2016 and 2015:

	Year Ended December 31,	
	2016	2015
	($ in thousands)	
Product revenues gross profit	$ 4,277	$ 5,446
Product revenues gross margin	25%	26%
Contract revenues gross profit	$ 1,165	$ 1,532
Contract revenues gross margin	37%	36%
License revenues gross profit	1,000	
License revenues gross margin	100%	%
Total gross profit	$ 6,442	$ 6,978
Total gross margin	30%	28%

In 2016, total gross profit decreased approximately $0.5 million or 8%. Total gross margin was 30% for the year ended December 31, 2016 an increase from 28% for the year ended December 31, 2015, primarily due to $1.0 million in license revenue that had no associated current year's cost.

Product gross profit decreased approximately $1.2 million, primarily reflecting a 17% decrease in 2016 revenues and a slight decrease in average display selling prices due to product mix.

Product gross margin decreased from 26% in 2015 to 25% in 2016, reflecting deceased revenues in 2016 and a slight decrease in average display selling prices.

Contract gross profit decreased approximately $0.4 million as a result a decrease in 2016 revenues of $1.1 million. Contract gross margin increased slightly from 36% in 2015 to 37% in 2016. Contract gross margin is dependent upon the mix of internal versus external third party costs, with the external third party costs causing a lower gross margin and reducing the contract gross profit.

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Operating Expenses

	Year Ended December 31,		
	2016	2015	Change
	($ in thousands)		
Research and development expense	$ 6,362	$ 4,353	$ 2,009
Percentage of net revenue	30%	17%	
Selling, general and administrative expense	$ 8,411	$ 6,687	$ 1,724
Percentage of net revenue	39%	27%	
Total operating expenses	$ 14,773	$ 11,040	$ 3,733
Percentage of net revenue	69%	44%	

Research and Development Expenses

Research and development (R&D) expenses include salaries, development materials and other costs specifically allocated to the development of new microdisplay products, OLED technologies and production processes. Research and development expenses for the year ended December 31, 2016 were $6.4 million as compared to $4.4 million for the year ended December 31, 2015, an increase of $2.0 million. The increase in company-funded R&D expenses was due to lower allocations of salary costs to contracts due to lower revenues, costs incurred for the development of a night vision consumer products and hiring additional engineers to support product and process development.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) consist primarily of personnel expenses, professional services fees, as well as other marketing, general corporate and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2016 were $8.4 million as compared to $6.7 million for the year ended December 31, 2015, an increase of approximately $1.7 million. The increase in SG&A for 2016 was primarily due to higher spending for administrative expenses associated with our night vision consumer product activities, higher legal expenses, higher stock-based compensation costs and nonrecurring administrative transition costs associated with the consolidation of the Company's finance and procurement functions to our New York location.

Other Income (Expense)

Other income (expense), net primarily consists of interest expense, interest income on cash balances and other adjustments. Other income for 2016 is comprised of interest expense of $30 thousand, interest income on cash balances of $13 thousand, a reversal of a $271 thousand liability and other adjustments of $29 thousand. During the fourth quarter of 2016, we determined the statute of limitation had expired for potential claims related to liquidated damages payable under a 2008 registration rights agreement and reversed a related liability of $271 thousand. For the year ended December 31 2015, interest expense net of capitalization was $43 thousand and interest income was $4 thousand, net of other expenses of $4 thousand.

Income Tax Expense (Benefit)

For the years ended December 31, 2016 and 2015, income tax expense was approximately $0, respectively. We have a full valuation allowance as we have determined that it was not more likely than not that we would generate sufficient future taxable income to realize the deferred tax assets.

Net Loss

As a result of the above, net loss was approximately $8.0 million and $4.1 million for the years ended December 31, 2016 and 2015, respectively.

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Nine Months Ended September 30, 2017 Compared To Nine Months Ended, September 30, 2016

Revenues

	Nine Months Ended September 30,		
	2017	2016	Change
	(in thousands)		
Product	$ 13,050	$ 13,612	$ (562)
Contract	$ 2,559	$ 2,227	$ 332
License	$	$ 1,000	$ (1,000)
Total revenue, net	$ 15,609	$ 16,839	$ (1,230)

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

Product revenue is comprised primarily of sales of displays, as well as sales of other hardware. For the nine months ended September 30, 2017, product revenue decreased by $0.6 million as compared to the nine months ended September 30, 2016. This decrease was primarily due to lower demand from maturing military programs, and a larger proportion of sales of displays with lower average unit prices. Product revenue in the 2017 period was favorably impacted by sales of $0.3 million of newly-developed direct patterned displays supported by R&D efforts.

Contract revenue is comprised of revenue from R&D, commercial contracts, or NRE contracts. For the nine months ended September 30, 2017, contract revenue increased by $0.3 million as compared to the nine months ended September 30, 2016, primarily due to the addition of commercial contracts with several major consumer electronics companies in 2017.

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

Cost of Revenues

	Nine Months Ended September 30,		
	2017	2016	Change
	(in thousands)		
Product	$ 10,918	$ 9,639	$ 1,279
Contract	$ 1,346	$ 1,248	$ 98
License	$	$	$
Total cost of revenues	$ 12,264	$ 10,887	$ 1,377

Total cost of revenues is comprised of costs of product and contract revenues. Cost of product revenue includes materials, labor and manufacturing overhead, warranty costs and depreciation related to our products. Cost of contract revenue includes direct and allocated indirect costs associated with performance of deliverables under contracts. Total cost of revenues for the nine months ended September 30, 2017 increased by $1.4 million as compared to the nine months ended September 30, 2016. Total cost of revenues as a percentage of revenues was 79% for the nine month period ended September 30, 2017 as compared to 65% for the nine month period ended September 30, 2016. Revenues for the nine months ended September 30, 2016 included $1.0 million of license revenue that had no associated cost of revenues.

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

	Nine Months Ended September 30,	
	2017	2016
	($ in thousands)	
Product revenues gross profit	$ 2,132	$ 3,973
Product revenues gross margin	16%	29%
Contract revenues gross profit	$ 1,213	$ 979
Contract revenues gross margin	47%	44%
License revenues gross profit	$	$ 1,000
License revenues gross margin	%	6%
Total gross profit	$ 3,345	$ 5,952
Total gross margin	21%	35%

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

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

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

Operating Expenses

	Nine Months Ended September 30,		
	2017	2016	Change
	($ in thousands)		
Research and development expense	$ 3,782	$ 4,468	$ (686)
Percentage of net revenue	24%	27%	
Selling, general and administrative expense	$ 6,586	$ 6,044	$ 542
Percentage of net revenue	42%	36%	
Total operating expenses	$ 10,368	$ 10,512	$ (144)
Percentage of net revenue	66%	62%	

Research and Development (R&D). R&D expenses are company-funded and include salaries and related benefits, development materials and other costs specifically allocated to the development of new technologies and microdisplay products, OLED materials and subsystems. R&D related costs associated with fulfilling contracts are categorized as contract cost of revenues. R&D expenses decreased on a percentage basis for the nine months ended September 30, 2017 compared to the prior year period. R&D costs in the current year reflected a decrease in consumer product R&D partially offset by the

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work performed on the Company's direct patterning technology, including product development and process development associated with the manufacture of the direct patterned displays.

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

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

Other Income (Expense), net. Other income (expense), net consists primarily of interest income earned on cash balances and interest expense. Other expense, net for the nine months ended September 30, 2017 of $238 thousand reflects the write off of $158 thousand of debt issuance costs related to our financing arrangement with Stillwater Trust LLC in May 2017 upon the termination of this financing arrangement.

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

As of September 30, 2017, we had $2.0 million of cash and cash equivalents, as compared to $5.2 million as of December 31, 2016. The $3.2 million decrease in cash during the nine months ended September 30, 2017 was primarily due to cash used in operating activities of $6.9 million and investing activities of $1.2 million, partially offset by cash provided by financing activities of $4.8 million. The $4.1 million decrease in cash from 2015 to 2016 was primarily due to cash used in operating activities of $8.6 million and investing activities of $1.4 million, partially offset by cash provided by financing activities of $6.0 million.

Cash flow used in operating activities during the nine months ended September 30, 2017 was $6.9 million, attributable to net loss of $7.3 million partially offset by a net change in operating assets and liabilities of $1.8 million and non-cash expenses of $2.2 million. Cash flow used in operating activities during the nine months ended September 30, 2016 was $5.7 million. For the year ended December 31, 2016, operating activities used $8.6 million in cash, which was attributable to our net loss of $8.0 million and changes in operating assets and liabilities of $2.8 million primarily related to inventory for our consumer products launch, partially offset by the change in net non-cash expenses of $2.2 million.

Cash used in investing activities during the nine months ended September 30, 2017 was $1.2 million related to equipment purchases primarily to improve manufacturing yields and production capacity. As of September 30, 2017, we had outstanding commitments to purchase approximately $0.2 million in capital expenditures, and expect to make additional capital expenditures during 2017 to improve our manufacturing and R&D capabilities. Cash used in investing activities during the nine months ended September 30, 2016 was $1.0 million for equipment purchases. For the year ended December 31, 2016, investing activities used $1.4 million in cash for equipment purchases primarily for upgrading our production line.

Cash provided by financing activities during the nine months ended September 30, 2017 of $4.8 million included net repayments under our credit facility of $0.9 million partially offset by $69 thousand from the exercise of stock options, and proceeds of $5.8 million from a public offering.

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There were no financing activities during the nine months ended September 30, 2016. For the year ended December 31, 2016, financing activities provided approximately $6.0 million in cash of which approximately $4.3 million was net proceeds from the exercise of warrants to purchase common stock, $1.7 million from net borrowings under a new credit facility, net of debt issuance costs, and $45 thousand of proceeds from the exercise of stock options.

If we are not able to reach our anticipated level of profitability and cash flows over the twelve months commencing on January 1, 2018, it may be necessary to take actions to maintain our current levels of operations, including additional borrowings under our credit facilities, raising capital though issuance of equity, debt or equity linked securities, or to reduce our current levels of operations and implement cost reductions or restructuring activities. As of September 30, 2017, we had cash and working capital of $2.0 million and $10.6 million, respectively, and borrowing availability under the ABL Facility, net of borrowings of $0.9 million, of $3.7 million.

Underwritten Public Offering

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

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

Warrant Transaction

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

On August 24, 2016, in consideration for the exercise of the 2,216,500 warrant shares, we issued new common stock purchase warrants to purchase 2,947,949 shares of our common stock or 1.33 new warrant share for each warrant share exercised, with an exercise price of $2.60 per share, the approximate market price of the Company's shares at the date of the letter agreement. The terms of the warrants are substantially similar to the warrants issued in December 2015. Similar to the earlier warrants, they are not exercisable for six months from the date of issuance; and have a term of five and a half years from the issuance date.

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

ABL Facility

On December 21, 2016, we entered into an asset based revolving credit facility with a lender that provides for up to a maximum amount of $5 million based on a borrowing base equivalent of 85% of eligible accounts receivable plus the lesser of $2 million or 50% of eligible inventory. The interest on the ABL Facility is equal to the Prime Rate plus 3% but may not be less than 6.5% with a minimum monthly interest payment of $2,000. We are obligated to pay the lender a monthly administrative fee of $1,000 and an annual facility fee equal to 1% of the maximum amount borrowable under the facility.

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The ABL Facility will automatically renew on December 31, 2019 for a one-year term unless written notice to terminate the financing agreement relating to the ABL Facility is provided by either party.

The ABL Facility is secured by a lien on all receivables, property and the proceeds thereof, credit insurance policies and other insurance relating to the collateral, books, records and other general intangibles, inventory and equipment, proceeds of the collateral and accounts, instruments, chattel paper, and documents. The ABL Facility contains customary representations and warranties, affirmative and negative covenants and events of default, including a provision that we maintain a minimum tangible net worth of $13 million and a minimum working capital balance of $4 million. As of September 30, 2017, we had borrowings of $0.9 million outstanding under the ABL Facility and had unused borrowing availability of $3.7 million under the ABL Facility. We were in compliance with all debt covenants.

Unsecured Financing Arrangement

On March 24, 2017, we entered into an unsecured debt financing arrangement with Stillwater Trust LLC. This arrangement expired on May 24, 2017 upon the completion of an equity offering as provided under the terms of the financing agreement. Under the financing agreement, through June 30, 2018, we could borrow up to $2 million for general working capital purposes and up to an additional $3 million should our lender not provide borrowing availability under its normal terms and conditions through its ABL Facility. Pursuant to the financing agreement, the agreement would expire and borrowings become due upon the earlier of June 30, 2020; the completion of one or a series of equity financings which raise collectively $5 million or greater; or an event of default, as defined in the agreement. Amounts borrowed under the financing agreement, once repaid, could not be reborrowed.

The amounts drawn on the line accrued interest at 6% per annum payable at maturity, and were subject to an upfront drawdown fee of 2% of the amount drawn and a quarterly interest surcharge of 2% paid upfront and due commencing on the 180-day anniversary of each draw regardless of whether the draw was still outstanding and then a 2% quarterly interest surcharge until the draws were repaid. In connection with the financing commitment, the investor received a $50,000 commitment fee and a warrant to purchase 100,000 shares of common stock at an exercise price of $2.25 per share, the closing market price of our common stock on the date the financing agreement was executed. In connection with the facility, we, our lender and the investor entered into an intercreditor agreement.

Upon termination of this facility, the Company wrote off $158 thousand of related debt issuance costs, and recorded a charge to interest expense in the second quarter of 2017.

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

Former Credit Facility

Our former credit facility with a lender expired on August 31, 2016 and was not renewed. The facility provided for up to a maximum of $3 million in borrowings based on 75% of eligible accounts receivable, as defined in the agreement. The interest on the credit facility was equal to the prime rate plus 4% but could not be less than 7.25% with a minimum monthly interest payment of $1 thousand. The credit facility contained customary representations and warranties as well as affirmative and negative covenants. We were in compliance with all debt covenants. We did not draw on the credit

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facility at any time since its inception in September 2010 and there was no outstanding balance at the expiration date.

Evaluation of Ability to Maintain Current Level of Operations

In connection with preparing our consolidated financial statements for the year ended December 31, 2016, and for the nine months ended September 30, 2017, we evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about our ability to maintain our current level of operations for twelve months following the issuance of the respective dates covered by the financial statements.

For the consolidated financial statements for the year ended December, 31, 2016, we considered the following:

- Our projections for 2017 and 2018 compared to the operating losses we incurred during 2016 and the first nine months of 2017;
- Our recurring operating losses and negative cash flow from operating activities during 2016 and the first nine months of 2017;
- Our working capital requirements for 2017 and the first quarter 2018 compared to our working capital requirements for 2016 and the first nine months of 2017, giving consideration to our cash expenditures in 2016 and the first nine months of 2017 to build our infrastructure and to build inventory of our consumer products which were launched in the first quarter of 2017; and
- The availability of cash and cash equivalents, including our borrowing capacity, to fund our requirements through 2017 and the first quarter of 2018.

As part of this evaluation, we considered the following:

- The projected level of product revenues during 2017 and the first quarter 2018 compared to 2016 as we ramp up shipments to new military programs following the wind down in 2016 of other military programs from which we have historically achieved a higher level of revenues;
- Contract revenues in 2017 and first quarter 2018 from fulfillment of existing and expected R&D contracts with several Tier One consumer technology companies in comparison to no revenues from such companies in 2016;
- Anticipated revenues from the introduction in the first quarter of 2017 of our night vision products for the consumer market; and
- The availability to borrow under our ABL Facility and our credit facility with our largest investor.

Upon completion of its evaluation, management believed that the Company could generate sufficient cash from operations and borrow sufficient funds from its credit facilities to satisfy its obligations for at least the next twelve months from the issuance of its 2016 financial statements on or about March 28, 2017.

Management planned to take one or more of the following actions if the Company's cash flow projections were not accurate:

- Increase its borrowings under its ABL Facility and borrow from the credit facility;

Raise additional capital through a private placement or public offering of its equity securities; and/or

Implement cost reductions or restructure our operations.

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At December 31, 2016, the Company had $5.2 million in cash and cash equivalents, $11.2 million of working capital, $1.9 million of borrowings under its ABL Facility and unused borrowing availability of $2.0 million under its ABL Facility.

For the consolidated financial statements for the nine months ended September 30, 2017, we evaluated whether the conditions above raised substantial doubt about our ability to continue as a going concern. As part this evaluation, we also considered our ability to continue current operations, which was dependent on our existing cash and working capital balances and the ability to generate sufficient cash flows from operations. We expected that we may need additional capital to fund our operations over the next twelve months from the date of issuance of these financial statements. If we were unable to raise additional capital or obtain debt when required or on acceptable terms, we considered that we may have to reduce or delay operating expenses as deemed appropriate in order to conserve cash.

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

On May 24, 2017, we completed an underwritten offering of 3,300,000 shares of our common stock and warrants to purchase up to 1,650,000 shares of common stock and realized net proceeds of $5.8 million dollars after underwriting discounts and offering expenses.

Upon completion of its evaluation, management believed that the Company's current operating plan, current working capital levels, including proceeds from its May public offering, current financial projections, and the ability to borrow under its ABL Facility, had alleviated substantial doubt about its ability to continue as a going concern.

As of September 30, 2017, the Company had an accumulated deficit of $226.2 million. The Company incurred a net loss of $7.3 million and used cash in operating and investing activities of $8.1 million during the first nine months of 2017. In addition, at September 30, 2017, the Company had cash and cash equivalents of $2.0 million, $0.9 million of borrowings under its ABL Facility and unused borrowing availability of $3.7 million under its ABL Facility.

Dividends and Stock Repurchase Plan

In the years ended December 31, 2016 and 2015, no dividends were declared or paid. It is our intention to retain any future profits for use in the development and expansion of our business and for general corporate purposes. Future decisions to pay cash dividends are at the discretion of our Board of Directors.

In August 2011, our Board of Directors approved a stock repurchase plan authorizing us to repurchase our common stock not to exceed $2.5 million in total value. No shares were repurchased subsequent to September 2012. As of December 31, 2016, authorization to repurchase $2.0 million in value of our common stock remained under this plan.

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Contractual Obligations

The following chart describes the outstanding contractual obligations of the Company as of December 31, 2016 (in thousands):

	Payments Due by Period				
	Total	**1 Year**	**2 - 3 Years**	**4 - 5 Years**	**Thereafter**
Operating lease obligations	$ 6,869	$ 970	$ 1,822	$ 1,830	$ 2,247
Revolving credit facility(a)	1,852	1,852			
Equipment purchase obligations	630	630			
Purchase obligations(b)	3,829	3,829			
Total	$ 13,180	$ 7,281	$ 1,822	$ 1,830	$ 2,247

(a) The Company's revolving credit facility matures in 2019 and is classified as a current liability

(b) The majority of purchase orders outstanding contain no cancellation fees except for minor re-stocking fees or reimbursements due to contract manufacturers for components purchased in anticipation of a scheduled production run that are subsequently cancelled.

Critical Accounting Policies

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

Revenue and Cost Recognition

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.

Revenues from research and development activities relating to firm fixed-price contracts and cost-type contracts are generally recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Progress is generally based on a cost-to-cost approach; however, an alternative method may be used such as physical progress, labor hours or others depending on the type of contract. Physical progress is determined as a combination of input and output measures as deemed appropriate by the circumstances. Contract costs include all direct material, labor and subcontractor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party.

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

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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

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

Fair Value of Financial Instruments

The Company'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.

Stock-based Compensation

We maintain several stock equity incentive plans.

The 2008 Incentive Stock Plan, which is referred to herein as the 2008 Plan, adopted and approved by the Board of Directors on November 5, 2008 provides for grants 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 million shares. In 2016, there were 221,024 options granted from this plan.

The 2011 Incentive Stock Plan adopted and approved by the stockholders on November 3, 2011 provides for grants of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. On June 7, 2012, at the annual meeting of our stockholders, the stockholders approved an Amended and Restated 2011 Incentive Stock Plan, which is referred to herein as the 2011 Plan. The 2011 Plan has an aggregate of 1.4 million shares. In 2016, there were 458,000 options granted from this plan.

The 2013 Incentive Stock Plan, which is referred to herein as the 2013 Plan, adopted and approved by the stockholders on May 17, 2013 provides for grants of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. The 2013 Plan has an aggregate of 1.5 million shares. In 2016, there were 635,097 options granted from this plan.

During 2016, the Company also granted 125,000 options under the 2017 Incentive Stock Plan, which was adopted and approved by the stockholders on May 25, 2017. The plan provides for grants of common stock and options to purchase shares of common stock to employees, officers, directors and consultants.

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. For a further discussion on stock-based compensation, see Note 10 to our consolidated financial statements appearing elsewhere in this prospectus.

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Income Taxes

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

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

In assessing the realizability of deferred tax assets, we evaluate both positive and negative evidence that may exist and consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. At December 31, 2016 and 2015, we provided a full valuation allowance against our deferred tax assets as we determined that it was more likely than not that none of the deferred tax assets would be realized.

Our effective income tax rate was 0% in 2016 and 2015.

Effect of Recently Issued Accounting Pronouncements

For a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, see Note 2 of our consolidated financial statements appearing elsewhere in this prospectus.

Quantitative and Qualitative Disclosures About Market Risk

Market Rate Risk

We are exposed to market risk related to changes in interest rates.

Interest Rate Risk

We hold our cash in cash and cash equivalents and certificates of deposits. We do not hold derivative financial instruments or equity securities. At December 31, 2016, we had $1.9 million of borrowings under our ABL Facility. A hypothetical 10% increase in borrowing interest rates at December 31, 2016 would not have had a material effect on our consolidated financial position, results of operations, or cash flows in the year ended December 31, 2016.

Foreign Currency Exchange Rate Risk

We do not have any material foreign currency exchange rate risk because the majority of our transactions are denominated in U.S. dollars.

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BUSINESS

Overview

We are a leader in the manufacture of microdisplays using organic light emitting diode (OLED) technology. We design, develop, manufacture and market OLED miniature displays, which we refer to as OLED-on-silicon microdisplays, virtual imaging products that utilize OLED microdisplays, and related products. We also perform research in the OLED field. Our virtual imaging products integrate OLED technology with silicon chips to produce high-resolution microdisplays one-inch diagonally and smaller, which when viewed through a magnifier, create virtual images that appear comparable in size to that of a computer monitor or a large-screen television. Our products enable our original equipment manufacturer (OEM) customers to develop and market improved or new electronic products, especially products that are mobile and highly portable so that people have immediate access to information and can experience immersive forms of communications and entertainment. We believe that a key growth area for us is the consumer electronic OEM market. Our potential channels to this market include licensing of our direct patterning technology and partnering for the mass production of microdisplays. We believe that our direct patterning technology is a key differentiator for enabling next generation AR/VR hardware for the consumer and enterprise segments because of the brightness and the pixel density afforded by the technology. We also develop and manufacture night vision products for the consumer electronics, recreational, law enforcement and first responder markets, including a smart phone attachment and a wearable device.

We believe that our OLED microdisplays offer a number of significant advantages over comparable liquid crystal microdisplays, including higher contrast, greater power efficiency, less weight, more compact size, and negligible image smearing. Using our active matrix OLED technology, many computer and electronic system functions can be built directly into the OLED microdisplay silicon backplane, resulting in compact, high resolution and power efficient systems. Already proven in military and commercial systems, our portfolio of OLED microdisplays deliver high-resolution, flicker-free virtual images that perform effectively even in extreme temperatures and high-vibration conditions. We also believe that our direct patterning technology gives us a substantial advantage over other OLED microdisplays because it allows us to produce microdisplays with the high brightness required for VR and AR. Traditional OLED microdisplays utilize white emitting OLED with color filters that lessen the intensity of emitted light by as much as 85%, significantly reducing brightness. Microdisplays manufactured by direct patterning do not require color filters to achieve color variations and allow for the application of more efficient OLED structures which achieve high brightness.

We have developed our own intellectual property portfolio that includes patents, over 15 years of manufacturing know-how and proprietary technologies to create high performance OLED microdisplays. We believe our technology, intellectual property portfolio and position in the marketplace give us a leadership position in OLED and OLED-on-silicon microdisplay technology. We believe that we are one of only a few companies to market and produce significant quantities of high resolution, small molecule OLED-on-silicon microdisplays.

We derive the majority of our revenue from sales of our OLED microdisplay products. We also earn revenue from government, commercial and consumer product development contracts that may complement and support our internal research and development programs. In addition, we generate sales from optics and microdisplays combined with optics. Beginning in the first quarter of fiscal 2017, we introduced two consumer night vision products, BlazeSpark and BlazeTorch, although revenue from these products to date has been minimal.

Our Industry

A microdisplay typically has a screen size that is less than two inches in diagonal. The miniature size enables them to be used in a wide variety of applications that require a screen that takes up small

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space, like head-mounted displays (HMDs), viewfinders and digital cameras. Microdisplays are used across various industries including consumer electronics, enterprise/industrial, military, defense, aerospace, and healthcare. Microdisplays provide many advantages over other displays where small size is a requirement. Benefits include compact size, high brightness and resolution, low power consumption, and high contrast. Devices incorporating microdisplays include HMDs, smart glasses and headset products. Sales of AR and VR gear, which include HMD, smart glasses and headsets, are estimated to exceed $26 billion by 2021, according to Technavio.

Display quality is widely accepted as a key performance driver for ensuring the optimal user experience. We believe that this requirement for better display quality will result in next generation products in consumer electronics, defense, aviation, medical and industrial/enterprise segments of the market which utilize microdisplays.

Our Technology Platforms

Small Molecule, Top-Emitting Active Matrix OLED Technology

Our microdisplays are currently based upon active matrix small molecule OLED technology, which we refer to as active matrix OLED (AMOLED). Our AMOLED technology uniquely permits millions of individual low-voltage light sources to be built on low-cost, silicon computer chips to produce single color, white or full-color display arrays. Using our OLED technology, many computer and video electronic system functions can be built directly into the silicon chip, under the OLED film, resulting in a compact, integrated system with lower overall system costs relative to alternative technologies.

OLEDs are thin films of stable organic materials that emit light of various colors when a voltage is impressed across them. OLEDs are emissive devices, which means that they create their own light, as opposed to liquid crystal displays, which require a separate light source. As a result, our OLED microdisplays use less power and deliver much higher contrast and fuller color than liquid crystal microdisplays. Unlike liquid crystal displays which use crossed polarizers to generate black level, OLED displays exhibit an extremely high contrast ratio which results in very vivid images. Because the light they emit is Lambertian, which means that it appears equally bright from most forward directions, a moderate movement in the eye does not change the image brightness or color as it does in other technologies.

Our technology is based on integrating a proprietary OLED device with a specially designed silicon backplane to produce efficient and high performance AMOLED microdisplays. Our OLED displays incorporate a proprietary, top-emitting structure for our OLED devices that enables OLED displays to be built on opaque silicon integrated circuits rather than only on glass. Our OLED microdisplays emit full visible spectrum (white) light that is isolated with color filters to create color images. Our microdisplays have a brightness that can be greater than that of a typical notebook computer and can have a potential useful life of over 50,000 operating hours in certain applications. New processes and device improvements, such as our OLED-XLS technology, offer even better performance for brightness, efficiency, and lifespan. We have developed extremely bright OLED microdisplays using our patented and copyrighted direct patterning (dPd) technology and have demonstrated color high resolution (WUXGA) microdisplays with brightness in excess of 5,000 nits, which is the world's highest resolution and brightness. In addition to our AMOLED technology, we have developed compact optic and lens enhancements, which when coupled with the microdisplay, provide the high quality large screen appearance that we believe a large proportion of the marketplace demands.

We believe that our AMOLED technology provides significant advantages over other microdisplay technologies in our targeted markets. We believe these key advantages include:

High brightness

Sharp contrast

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Low power consumption for improved battery life and longer system life;

High-speed performance resulting in clear video images;

Compact form factor and light weight;

Wide angle light emission resulting in large apparent screen size and more immersive experience;

Wide operating temperature range;

Good environmental stability (vibration and humidity); and

Low manufacturing cost at higher volumes.

Prism Optics

We sell high quality, large viewing angle prism optics with a wide range for eye positioning, both of which are essential for using our displays in immersive near-eye systems. We have developed advanced molded plastic prism lenses that permit our AMOLED microdisplays to provide large field of view images that can be viewed for extended periods with reduced eye-fatigue. We have developed an additional prism optic for a project that will pair with our SXGA096 display.

Our Market Opportunities

We target the military, aviation, industrial/medical, and consumer markets although many of our products cater to multiple markets. Within each of these market sectors we believe that our OLED microdisplays, when combined with compact optic lenses, can become a key component for a variety of mobile electronic products. Many of these products employ head-wearable displays that incorporate microdisplays mounted in or on eyeglasses, goggles, simple headbands, helmets, or hardhats, and are often referred to as head-mounted displays (HMDs) or headsets. Head-wearable displays may block out surroundings for a fully immersive experience, or be designed to "see-through" or "see-around" to the user's surroundings. They may contain one (monocular) or two (binocular) displays. We have leveraged our experience in developing for military and commercial aviation helmets and believe this experience will allow us to more rapidly introduce displays suitable for specialized/high-end mass market consumer VR/AR applications than our competitors.

Consumer

We believe that the most significant driver of the longer term near-eye virtual imaging microdisplay market is the growing consumer demand for mobile access to larger volumes of information and entertainment in smaller and more affordable packages. This desire for mobility has resulted in the development of mobile video personal viewer products in three general categories: (i) immersive VR headset-application platforms such as accessories for gaming computers, portable digital optical disc (DVD) systems and wearable telepresence systems; (ii) AR electronic viewers incorporated in products such as data glasses and personal viewers for cell phones; and (iii) low cost thermal and low light imaging and scopes for hunting and other outdoor activities.

As we manufacture our OLED displays in higher volumes at reduced costs and capitalize on our direct patterning technology, we believe that our products will be increasingly well positioned to compete with and displace liquid crystal displays and cell phone size displays in the rapidly growing consumer market, particularly as demand expands for sophisticated mobile personal viewers offering higher resolution and better image quality for VR and AR applications. Users of VR HMD's are demanding a fully immersive experience. We believe our direct patterning technology addresses the critical performance parameters for next generation VR HMDs, including higher brightness, sharper resolution, lower power consumption and longer life. Our strategy for addressing the consumer mass

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market includes developing partnerships with both Tier One consumer companies and high volume production manufacturing companies.

Potential applications for these personal viewers include handheld personal computers and mobile devices, such as smartphones, whose small, direct view screens limit the amount of information that can be displayed but which are now capable of running more complex software applications. Examples encompass applications where hands-free viewing is desired such as maintenance activities; entertainment and gaming video headset systems; and night time or thermal imaging devices for hunting, camping, and other outdoor activities. Current commercial products equipped with our OLED microdisplays in these sectors include those produced by Trijicon (IR Defense), among others. In addition, in late 2015, we entered into a HMD technology licensing agreement with a Tier One consumer electronics company which includes the use of our 2K × 2K displays in its consumer headsets. In December 2016, we entered into an agreement with a Tier One company interested in incorporating our proprietary direct patterning technology into potential headset products.

In the first quarter 2017, we introduced two night vision products, BlazeSpark and BlazeTorch. These products were designed for recreational use as well as hobbyists, and outdoor enthusiasts. Additionally, the products can be used by utilities and law enforcement agencies to expand or enhance their night-time activities.

Military/Aviation

Properly implemented, we believe that head-mounted systems incorporating our microdisplays increase the user's effectiveness by allowing hands-free operation and increasing situational awareness with sufficient brightness for use in daylight, yet controllable for nighttime light security. As a COTS (commercial off-the-shelf) component, OLED microdisplays possess performance characteristics important to military and other demanding commercial and industrial applications, including high contrast, wide dimming range, shock and vibration resistance and insensitivity to high G-forces. The design features and performance characteristics of our OLED microdisplays reduce the size, weight, and power required by current and future military systems, while also providing a wide operating temperature range. The image does not suffer from flicker or color breakup in vibrating environments and the microdisplay's wide viewing angle allows ease of viewing for long periods of time. Most importantly, our OLED's low power consumption reduces battery weight and, for military applications, increases allowed mission length. The OLED's wide operating temperature range is of special interest for military applications because the display can turn on instantly at temperatures far below freezing and can operate at very high temperatures, such as in desert conditions. We believe that our microdisplay products provide power advantages over other microdisplay technologies, particularly liquid crystal displays which require backlights and heaters and cannot provide instant-on capabilities at low temperatures. Incorporating OLED microdisplays into aviation helmets has been made possible by the high brightness of the OLED technology that we have developed.

Our products' military applications primarily fall into three broad areas: (1) helmet-mounted and handheld displays for situational awareness and data; (2) night vision/thermal imaging goggles, rifles and targeting sights, and handheld viewers; and (3) training and simulation devices. These systems are also well suited for demanding operations such as urban security, homeland defense, and fire and rescue.

Situational Awareness

Our OLED microdisplays have been incorporated into a broad range of U.S. and foreign military situational awareness programs. Situational awareness products include head-mounted displays that are used to display images, including digital map, sensor imagery and pilot aviation information. In addition, handheld imagers provide improved situational awareness on the battlefield, as well as in

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training and simulation. These products can also be combined with a weapon system to give the user the capability to select targets without direct exposure.

Night Vision/Thermal Imaging

Night vision goggles allow the user to see in low light conditions. Most versions include two different technologies: infrared/thermal and image intensification. Third and fourth generation military devices generally use some combination of the two technologies. Thermal imagers detect infrared energy (heat) and convert it into an electronic signal. The resulting signal needs to be presented on a display. Heat sensed by an infrared camera can be very precisely quantified, or measured, allowing the user to not only monitor thermal performance, but also identify and evaluate the relative severity of heat-related problems. Thermal imaging systems can be stand-alone handheld systems or integrated as part of the aiming mechanism for a larger system. Advances in sensor technology, both in sensitivity and resolution as well as economic efficiency, have been the driving factors in the adoption of thermal technologies for military applications. We believe the power efficiency and environmental ruggedness of our products are strong competitive advantages, particularly for smaller handheld non-cooled systems. Fielded products incorporating our OLED microdisplays include Harris' and L3 Insight's Enhanced Night Vision Goggle II, the Enhanced Night Vision Goggle III, Family of Weapons Sights Individual and Crew Served for the U.S. Army, L-3's Javelin medium-range anti-tank missile system, Northrop Grumman's Lightweight Laser Designator Rangefinders, Thales' SOPHIE handheld thermal imagers, and Thales' MINIE , LUCIE , and MONIE night vision goggles.

Training and Simulation

Our OLED microdisplays are purchased by OEMs for use with their simulation and training products. The companies that incorporate our OLEDs into their training and simulation applications include Quantum 3D, Rockwell Collins, Intevac Vision Systems, and Sensics, among others. Our displays have been commercialized and prototyped for situational awareness and night vision/thermal imaging applications by military systems integrators, including Elbit, L-3 Communications, Intevac Vision Systems, Nivisys, BAE Systems Technology, DRS, Harris (formerly Excelis/ITT), Intevac Vision Systems, Qioptiq, Rockwell Collins, SA Photonics, Saab, Sagem DS, and Thales, among others.

Commercial, Industrial, and Medical

We believe that a wide variety of commercial and industrial markets offer significant opportunities for our products due to increasing demand for instant data accessibility in mobile workplace environments and due to the benefit of mobile displays to enhance visual performance. Examples of existing and potential microdisplay applications include enhanced visualization for ocular surgery, mobile ultrasound, mobile nondestructive testing, enhanced vision for those with visual impairments, immediate access to inventory or maintenance and construction manuals, routine quality assurance inspection, and real-time viewing of images and data for a variety of applications. As an example, a user wearing an HMD while operating test equipment, such as an oscilloscope, can view technical data while simultaneously probing printed circuit boards. Current commercial products equipped with our OLED microdisplays in these sectors include those produced by BCF, Liteye, FLIR Systems, Nordic NeuroLab, VRmagic GmbH, and Sensics, among others.

Our Products

Our first commercial microdisplay, the SVGA+ OLED, was introduced in 2001. In 2008, we introduced engineering samples of our SXGA120 OLED microdisplays and began selling significant quantities of the product in 2010. In late 2011, we began selling pre-production samples of the WUXGA OLED microdisplay which is now qualified and in production. In 2014, we released our Digital SVGA, and in 2015, we released our smaller pixel pitch digital SXGA, SXGA096, as well as an

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upgrade to the SXGA120 and WUXGA. Our OLED display products are being designed in products to be manufactured by OEM customers for a wide variety of military, medical, industrial, and consumer applications. We offer our products to OEMs and other buyers as both separate components, integrated bundles coupled with our own optics, or complete systems. We also offer engineering support to enable customers to quickly integrate our products into their own product development programs and design customized displays with resolutions or features to meet specific customer requirements. In 2015, we announced the development of a prototype 2K × 2K immersive headset that uses our prototype 2K × 2K display. During 2016, we demonstrated the world's first highest brightness (~4,500 cd/m2) and highest resolution (1920x1200 pixels) microdisplay using our proprietary direct patterning method. With the addition of these new displays, we now offer a wide variety of OLED microdisplay options to our customers.

SVGA+ OLED Microdisplay Series (Super Video Graphics Array of 852x600)

The SVGA+ OLED Microdisplay Series is a 0.62 inch diagonal microdisplay that has a resolution of 852x600 triad pixels (1.53 million picture elements). The display also has an internal NTSC monochrome video decoder for low power night vision systems. The SVGA+ Rev3 OLED-XL microdisplay is a power efficient OLED display solution for near-eye personal viewer applications which uses less than 115 mW power in monochrome for thermal imaging applications, and lower than 175 mW at 200 cd/m2 for full color video.

Digital SVGA OLED-XL

The Digital SVGA or DSVGA OLED-XL was released for production in 2014. This is an 800 × 600 display with 15 micron pixels and a 0.6 inch diagonal. It has all the benefits of our other digital displays, including lower power (100 mW monochrome and 135 mW color), high (10,000 to 1) contrast, and also features a digital composite signal interface, enabling a minimal physical interface for color applications.

SXGA096 OLED-XL/XLS (Super eXtended Graphics Array, 1280 x 1024)

The SXGA096 display was introduced in 2015. It features a 9.6-micron color pixel and was designed with the same level of feature integration as the DSVGA microdisplay, as well as a low pin-count, high speed LVDS (Low Voltage Differential Signaling) data interface. The compactness and high information content of the SXGA096 makes it ideal for small form factor applications such as commercial headsets and smart weapon sights. This microdisplay incorporates OLED XLS technology more than doubling the OLED XL brightness. This expands the range of optical solutions that can be used with this display to result in smaller and lighter display modules.

SXGA OLED-XL (Super eXtended Graphics Array, 1280 x 1024)

Our SXGA OLED microdisplay with a 0.77 inch diagonal active area provides 3,932,160 sub-pixels in an active area. The display's pixel array comprises triads of vertical sub-pixels stacked side by side to make up each 12 × 12mm color pixel. The SXGA OLED-XL microdisplay offers digital signal processing, requiring less than 200mW under typical operation. The supported video formats are SXGA, 720p, DVGA (through 1280 × 960 pixel doubling), and both frame sequential and field sequential stereovision.

VGA OLED-XL (Video Graphics Array, 640 x 480)

The VGA OLED-XL microdisplay was introduced to our product line in 2011 and is our smallest (0.5 inches) and lowest powered (<60 mW monochrome/<100 mW color). The VGA OLED-XL utilizes the same voltage pixel drive architecture and "Deep Black" technology as the SXGA and

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WUXGA designs and includes motion artifact reduction technology like the WUXGA. Also like the SXGA and WUXGA, the VGA provides a FPGA driver design for maximum flexibility and versatility. The VGA interface is 30-bit digital RGB.

WUXGA OLED-XL (Widescreen Ultra eXtended Graphics Array, 1920 x 1200)

Our WUXGA OLED-XL microdisplay provides higher resolution than most HD (High Definition) flat screen televisions. With a triad sub-pixel structure this display is built of 7,138,360 active dots at 3.2 microns each. The WUXGA OLED-XL is built upon the voltage pixel drive approach first developed for the SXGA OLED-XL, which provides improved uniformity, ultra-high contrast (measured at greater than 100,000:1) and lower power. The advanced WUXGA design features our proprietary "Deep Black" architecture that ensures that off-pixels are truly black, automatically optimizes contrast under all conditions, and delivers better pixel to pixel uniformity. The WUXGA OLED-XL includes a low-power, low-voltage-differential-signaling (LVDS) serial interface and the overall display power requirement is typically less than 350 mW running standard video. Also included is our proprietary motion enhancement technology which smooths video display and virtually eliminates unwanted artifacts. Like the SXGA, the WUXGA provides a FPGA driver design available on a separate, lower power driver board, or as source code for integration into end product electronics giving OEM developers maximum versatility and flexibility. On-board circuitry ensures consistent color and brightness over a wide range of operating temperatures.

Lens and Design Reference Kits

We offer a prism optic with mounting brackets or combined with OLED microdisplays to form an optic-display module. We provide design reference kits, which include a microdisplay and associated electronics, to help OEMs evaluate our microdisplay products and to assist their efforts to build and test new products incorporating our microdisplays.

Integrated Modules

We provide near-eye virtual imaging modules that incorporate our OLED-on-silicon microdisplays with our lenses and electronic interfaces for integration into OEM products. We have shipped customized modules to several customers, some of which have incorporated our products into their own commercial products.

Headsets

In 2014, we developed and demonstrated a new Immersive Head Mounted Display (IHMD) with a different look and superior performance than other VR HMDs. Compared to other VR HMDs, it has four times the resolution, no pixelization, and a much smaller form factor. It incorporated our earlier 2K by 2K high-resolution OLED microdisplay prototype and patented optics, giving it significantly sharper resolution than a cell phone display and conventional optics. The field of view (FOV) of the IHMD exceeds one hundred (100) degrees and it has a resolution of four (4) megapixels per eye. We entered into a nonexclusive license agreement in 2015 to allow an undisclosed company to use the technology in this IHMD for their own applications and may incorporate our 2K × 2K displays in headsets that use the technology. The retrofit of our latest 2K × 2K microdisplay prototypes into the original design of this IHMD is being considered as a means to showcase their superior performance and higher resolution.

We are subject to certain export control laws, including the Export Administration Regulations (EAR) and the International Traffic in Arms Regulations (ITAR). Certain of our products may be deemed to be controlled for export by the U.S. Commerce Department's Bureau of Industry and Security under the EAR or by the U.S. State Department's Directorate of Defense Trade Controls

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(DDTC) under the ITAR. Most of our ITAR products are custom displays developed for a specific military program or purpose. Failure to comply with these export control laws can lead to severe penalties, both civil and criminal, and can include debarment from contracting with the U.S. government.

Night Vision Smartphone Camera Attachment and Goggles

In 2016, we announced night vision products for the consumer markets and began limited sales in the first quarter of 2017. A smartphone camera attachment allows consumers to see clear, high-resolution images in the dark. A companion application allows users to record and live stream content directly to our social media sites and share with other sites. We also developed a wearable device that utilizes our OLED microdisplay technology to provide hands-free operation for night-time activities with the capability to record and upload content. We are completing the development of these products and pursuing channels of distribution.

Government Contract Funding

We derive a portion of our revenue from funding that we receive pursuant to research contracts or subcontracts funded by various agencies of the U.S. government.

In 2014, we were awarded a $5 million contract to develop and produce an ultra-high resolution, high brightness, high contrast, full color OLED microdisplay at a low unit cost. This Defense-wide Manufacturing Science & Technology award, also known as ManTech, is funded by the Undersecretary of Defense for Acquisition, Technology, and Logistics and will be administered by the U.S. Army RDECOM CERDEC Night Vision and Electronic Sensors Directorate Science and Technology Division. We earned a substantial portion of our R&D contract revenue in 2016 from this project and we expect to complete it by May 2018.

In 2015, we were awarded two new development programs that continued into 2016. The first program is a Small Business Technology Transfer program with the Air Force Research Laboratory and the second is a Small Business Innovation Research program with the United States Special Operations Command. Both programs were for investigating improved OLED micro display design and performance and were completed in 2016.

Our contracts with the U.S. government require us to conduct the research effort described in the statement of work section of the contract. These contracts may be modified or terminated at the discretion of the government and are subject to authorization, appropriation and allocation of the required funding on an annual basis.

Our Strategy

Our strategy is to strengthen our leadership position as a worldwide supplier of microdisplays and virtual imaging technology solutions for applications in high growth segments of the consumer, military and commercial electronics industry by capitalizing on our experience and expertise in active matrix OLED technology and silicon wafer design. We also plan to continue our participation in U.S. government funded Contract Research and Development programs which allows us to continue to enhance our technology. We aim to provide microdisplays and complementary accessories to enable OEM customers serving a variety of markets, including commercial, military and medical, to develop and manufacture new and enhanced electronic products. With the announcement of our BlazeSpark and BlazeTorch consumer night vision products, we have also entered the consumer electronics,

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recreational, law enforcement and first responder markets. Some key elements of our strategy to achieve these objectives include the following:

Develop OEM and mass production partnerships in the consumer HMD market. As the consumer VR market matures, eMagin technology is positioned well to address the requirements of this segment. Developing customer partners is key to establishing eMagin as the market leader for next generation displays for the consumer HMD market. In addition, executing on mass production partnerships will position us to capture a market predicted to experience significant growth through the 2020s.

Strengthen our technology leadership. As the first to exploit AMOLED microdisplays and the only participant in U.S. government contract research and development programs for OLED microdisplays, we believe that we enjoy a significant advantage in bringing this technology to market. By continuing to invest in research and development, and protecting our intellectual property, we expect to further develop performance improvements and provide a competitive edge for our customers who integrate our displays into their end products.

Optimize microdisplay manufacturing efficiencies while protecting proprietary processes and partner with large volume manufacturers to bring our technology into high volume production. We intend to reduce our production costs primarily by improving manufacturing yields and lowering fixed costs through reduced cycle time and increased automation as well as equipment upgrades. We outsource certain portions of microdisplay production, such as chip fabrication, to minimize our costs and time to market. We intend to retain the OLED-related processes in-house, where we have a core competency and manufacturing expertise. We also believe that by keeping these processes under tight control we can better protect our proprietary technology and process know-how. We believe that this strategy will also enhance our ability to continue to optimize and customize processes and devices to meet customer needs. In order to address emerging high volume consumer electronics OLED microdisplay requirements, we are actively seeking manufacturing partners who can help us realize that objective.

Build and maintain strong design capabilities. We employ in-house design capabilities supplemented by outsourced design services. Building and maintaining this capability allows us to reduce engineering costs, accelerate the design process and enhance design accuracy to respond to our customers' needs as new markets develop. Contracting third party design support to meet demand and for specialized design skills may also remain a part of our overall long term strategy. Given these capabilities, we continue to look for opportunities to add value to our displays to increase revenue.

Leverage strategic relationships. External relationships serve an important role in our research and development efforts. Suppliers, equipment vendors, government organizations, contract research groups, external design companies, customer and corporate partners, consortia, and university relationships all enhance the overall research and development effort and bring us new ideas and solutions. In addition, we participate in industry associations such as the Society for Information Display; SPIE, the international society for optics and photonics; the Army Aviation Association of America; and the National Defense Industrial Association; among others. We believe that strategic relationships allow us to determine better the demands of the marketplace and, as a result, allow us to focus our research and development activities on satisfying our customers' evolving requirements.

Enter consumer electronics markets. We announced the launch of our consumer night vision products, the BlazeSpark smart phone accessory and BlazeTorch night vision goggles in late 2016 and began limited sales in the first quarter of 2017. We plan to sell to consumers and to build relationships with commercial, law enforcement and first responder customers who have expressed interest in our products.

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Sales and Marketing

We primarily provide our OLED display and optics components to OEMs to incorporate into their branded products and sell through their own well-established distribution channels. We have traditionally marketed and sold our products to customers through targeted selling, promotions, select advertising and attendance at trade shows. We identify companies with end products and applications for which we believe our products will provide a key differentiator. Marketing efforts focus on identifying prospects and communicating the product performance attributes foremost in the minds of purchasing decision-makers. We believe that this approach positions us to achieve the highest possible return on investment for our marketing expense.

We market our products in North America, Asia, and Europe directly from our sales office located at our Hopewell Junction, NY facilities. We also have distributors in China and Korea.

An OEM design cycle typically requires between six and 36 months, depending on the uniqueness of the market, the complexity of the end product or, in the case of military OEM customers, government procurement schedules. Because our microdisplays are the main functional component that defines many of our customers' end products, we work closely with customers to provide technical assistance throughout the product evaluation and integration process.

Our consumer night vision products, which became available for sale in the first quarter of 2017, are marketed directly to the consumer through leveraging social media, trade shows, coverage by industry and consumer publications, and through our web site. We also market our products directly to recreational venues which may purchase our products for use by and sale to their customers and directly to industrial and commercial end users.

Customers

Customers for our products include both large multinational and smaller OEMs. We maintain relationships with OEMs in a diverse range of industries encompassing the military, industrial, medical, and consumer market sectors. The following table estimates net product revenues in the market sectors.

	For the Years Ended December 31,		
Market	**2016**	**2015**	**2014**
Commercial	29%	27%	23%
Military	47%	53%	58%
Commercial and Military	24%	20%	19%

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

	For the Years Ended December 31,		
Geographic Location	**2016**	**2015**	**2014**
United States	58%	63%	51%
International	42%	37%	49%

In 2016, there was one customer that accounted for 11% of total revenues. In 2015, there were 2 customers that accounted for 12% and 11% of total revenues.

Backlog

As of December 22, 2017, we had a backlog of approximately $11.1 million. This backlog primarily consists of non-binding customer purchase orders and purchase agreements with expected delivery dates

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during 2018, but does not include expected revenue from research and development contracts or expected NRE (non-recurring engineering) programs under development. Most purchase orders are subject to rescheduling or cancellation by the customer with no or limited penalties. We believe that the backlog metric is of limited utility in predicting future sales because many of our OEM customers operate on a ship-to-order basis. Variations in the magnitude and duration of purchase orders and customer delivery requirements may result in substantial fluctuations in backlog from period to period.

Facilities

Manufacturing

Our manufacturing facilities are located about 70 miles north of New York City in Hopewell Junction, NY. We lease approximately 37,000 square feet of space which houses our own equipment for OLED microdisplay fabrication and research and development, includes a 16,300 square foot class 10 clean room space, additional lower level clean room testing space, assembly space and administrative offices. The lease expires in 2024.

Facilities services provided by the lessor include our clean room, pure gases, high purity de-ionized water, compressed air, chilled water systems, and waste disposal support. This infrastructure provided by our lease provides us with many of the resources of a larger corporation without the added overhead costs. It further allows us to focus our resources more efficiently on our product development and manufacturing goals.

We believe manufacturing efficiency is an important factor for success, especially in the consumer markets. Although we currently have the equipment needed for profitable production in place, we purchased $1.4 million, $1.2 million and $1.1 million in 2016, 2015 and the first nine months of 2017, respectively, of additional equipment mainly related to manufacturing to increase capacity and yield and to meet expected demand for our microdisplays.

Our consumer night vision products are manufactured at contract manufacturing facilities located in Singapore and China and incorporate displays manufactured at our facilities in Hopewell Junction, NY, and components and subassemblies manufactured by domestic and foreign suppliers.

Other

We lease approximately 2,000 square feet of office space for design and product development in Santa Clara, CA and the lease expires in 2019.

Competition

The industry in which we operate is highly competitive. We face competition from legacy technologies such as transmissive liquid crystal displays and liquid crystal on silicon displays as well as from alternative flat panel display technologies such as virtual scanning retinal displays. There are many large and small companies that manufacture or have in development products based on these technologies.

There are a few manufacturers of high resolution OLED microdisplays that produce microdisplays that compete with our microdisplay products. They are Yunnan OLiGHTECK Opto-Electronic Technology Co., Ltd. in China and MicroOLED in France. Both are shipping OLED microdisplays into the market. Sony Mobile Display Corp., in Japan, produces OLED microdisplays for integration into Sony's own higher-level systems such as digital cameras and HMDs and is now selling microdisplays to some commercial customers. In addition, in early 2017, Kopin Corporation announced a 2k × 2k microdisplay which includes OLEDs sourced from an existing manufacturer.

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If other new OLED-based companies enter our markets with directly relevant display designs and without manufacturing and reliability issues, we will face additional competition, although we believe that our progress to date in this area gives us a significant advantage.

We believe that competition will come from liquid crystal on silicon displays, small transmissive liquid crystal displays, and OLED microdisplays manufactured by competitors. While we believe our OLED technology is technically superior by providing higher quality images, greater environmental ruggedness, reduced electronics cost and complexity, and improved power efficiency microdisplays, there is no assurance that we will continue to be the dominant OLED microdisplay supplier. Competition can also come from inorganic micro LEDs, a technology still in the development stage but which could become a major competitor if all the technological hurdles are overcome.

Our consumer night vision products may face competition from a variety of electronics manufacturers that primarily offer thermal imaging cameras and monoculars. These include manufacturers of thermal imaging video cameras and monoculars. These devices are traditionally more expensive, heavier and larger than our BlazeSpark and BlazeTorch night vision products and are primarily designed for commercial users.

Our BlazeSpark and BlazeTorch products rely on a less expensive digital CMOS sensor and software image processing to produce viewable images though either smart phone displays or our proprietary OLED display and prism technology. While we believe our digital process technology, compact size, appealing designs, and streaming platforms offer advantages for serving consumer markets, it is possible that existing manufacturers of military and tactical night vision systems may offer consumer products, or other manufacturers may develop innovative technologies, that create increased competition.

Intellectual Property

We believe we have developed our own intellectual property portfolio of patents, trade secrets and manufacturing know-how. Our intellectual property includes 34 patents and 29 patent applications. It is important to protect our investment in technology by obtaining and enforcing intellectual property rights, including rights under patent, trademark, trade secret and copyright laws. We seek to protect inventions we consider significant by applying for patents in the United States and other countries when appropriate. The U.S. government holds licenses to much of our technology as a result of its funding a significant portion of our research and development.

Our intellectual property covers a wide range of materials, device structures, processes, and fabrication techniques, primarily concentrated in the following areas:

OLED Devices, Architecture, Structures, and Processes;

Display Color Processing and Sealing;

Active Matrix Circuit Methodologies and Designs;

Lenses and Tracking (Eye and Head);

Ergonomics and Industrial Design;

Wearable Computer Interface Methodology;

Legacy Field Emission and General Display Technologies; and

Head-mounted display technology.

We believe that, in addition to patent protection, our success is dependent upon trade secrets, technical expertise and know-how. To protect this information and know-how from unauthorized use or disclosure, we use nondisclosure agreements and other measures to protect our proprietary rights, and

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we require all employees, and where appropriate, contractors, consultants, advisors and collaborators to enter into confidentiality and non-competition agreements. We believe that our intellectual property portfolio, coupled with our strategic relationships and accumulated manufacturing know-how in OLED, gives us a significant advantage over potential competitors.

Employees

At September 30, 2017, we had a total of 98 employees, of whom 95 were full-time employees. None of our employees are represented by a labor union. We have not experienced any work stoppages and consider our relations with our employees to be good.

Legal Proceedings

From time to time and in the ordinary course of business, we are subject to various claims, charges and litigation. The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, which could materially affect our financial condition or results of operations.

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

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MANAGEMENT

Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors as of January 1, 2018:

Name	Age	Position
Andrew G. Sculley	66	Chief Executive Officer, President and Director
Jeffrey P. Lucas	57	Chief Financial Officer and Chief Accounting Officer
Amalkumar Ghosh	63	Senior Vice President, Research and Development
Olivier Prache	58	Senior Vice President, Product Development
Stephen Costello	51	Senior Vice President, Strategic Partnerships
Christopher Brody(2)(3*)	49	Director
Paul Cronson(1)(4)	60	Director
Dr. Leslie G. Polgar(1)(3)(4)	74	Director
Ellen Richstone(1*)(2)	66	Director
Brig. General Stephen M. Seay, U.S. Army (Ret.)(1)(2*)(3)	71	Director
Dr. Jill J. Wittels	68	Director, Chair of the Board

(1) Audit Committee

(2) Governance & Nominating Committee

(3) Compensation Committee

* Committee Chair

Andrew G. Sculley

Andrew G. Sculley became the Company's Chief Executive Officer and President on June 1, 2008 and was appointed to the Board of Directors on November 2, 2009. Mr. Sculley served as the General Manager of Kodak's OLED systems Business Unit and Vice President of Kodak's Display Business from 2004 to 2008. From 2003 to 2006, he served on the Board of Directors of SK Display, a joint venture between Sanyo and Kodak. From 1996 to 2001, Mr. Sculley served as the Manager of Operations, Chief Financial Officer and member of the Board of Directors of Kodak Japan Ltd., where he led the effort to improve performance. Previously, he held positions in strategic planning and finance at Eastman Kodak Company. Mr. Sculley holds an M.B.A. from Carnegie-Mellon University, an M.S. in physics from Cornell University and a B.S. in physics from Stevens Institute of Technology. He attended Harvard University's Advanced Management Program/International Senior Management Program while an executive at Kodak. Mr. Sculley's experience as the Company's Chief Executive Officer and technical and business management experience at Kodak's Display Business, SK Display and Kodak Japan Ltd., led to the conclusion that Mr. Sculley should serve on the Board of Directors, given the Company's business and structure.

Jeffrey P. Lucas

Jeffrey P. Lucas became the Company's Chief Financial Officer on September 14, 2015. Mr. Lucas was the Chief Financial Officer and a member of the Board of Directors of Transfreight companies from 2013 to 2015. From 2010 to 2013, Mr. Lucas was the Managing Director of Neptune Advisors, LLC, a strategy consulting firm. From 2006 to 2010, he was the Chief Financial Officer of GPX International Tire Corporation. Mr. Lucas is a Certified Public Accountant and a Chartered

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Financial Analyst. He earned a M.B.A. from Harvard Business School and a B.A. in Economics from Tufts University.

Dr. Amalkumar Ghosh

Dr. Amalkumar Ghosh was appointed Senior Vice President of Research and Development in April 2009, after serving as Vice President of OLED Research and Development at the Company since 2005. He is responsible for new microdisplay technology development, government programs, intellectual property and manufacturing process engineering. Dr. Ghosh has more than thirty years of leading industrial research and development experience. From 2002 to 2005, he was at Eastman Kodak Company where he played a key role towards OLED display technology development. From 1995 to 2002, he was employed by the Company. His work during this period laid the foundations for OLED microdisplay technology. From 1985 to 1995, he was with IBM Corporation where he was a leader in various aspects of semiconductor and liquid crystal display technologies. He has many publications and patents to his credit and has received numerous awards and recognitions from the Society for Information Display, including being nominated a Fellow of the Society. Dr. Ghosh was the President of the Society for Information Displays from 2014 to 2016. Currently, he is a board director for the society. Dr. Ghosh earned a Bachelor of Science and Master of Science in physics from Poona University and a Ph.D. degree in Physics from Massachusetts Institute of Technology.

Olivier Prache

Olivier Prache was appointed Senior Vice President, Product Development in September 2012. His current responsibilities encompass managing OLED product development and product engineering. He served as Senior Vice President of Display Operations and Development from 2005 to 2012, after overseeing microdisplay product development at the Company since 1995 when he joined the Company's predecessor, FED Corporation. He was employed by Philips-LCOS from 2002 until 2004 when he rejoined the Company. Prior to joining the Company's predecessor in 1995, he worked for Pixtech in France and OIS Optical Imaging Systems in Troy, Michigan. He earned an M.S. degree in electronics from E.N.S.E.R.G., in Grenoble, France in 1983.

Stephen Costello

Stephen Costello was appointed Senior Vice President, Strategic Partnerships in September 2016. He has extensive experience in sales, partner development and marketing. He served from May 2015 to September 2016 as Vice President of Community Development for Aras Corp. From 2010 to 2014, he served as Head of Sales at SpaceClaim Corp. Steve has successfully commercialized military technology in Industrial, Enterprise and Consumer segments with multiple companies, including BAE Systems and DigitalGlobe. He earned a B.S. in Marketing and Economics from Babson College and a M.S. in Marketing from Bentley University.

Christopher Brody

Since February of 2012, Mr. Brody has served as the President and Managing Director of Stillwater LLC and as the Vice President of Stillwater Trust LLC. Both Stillwater LLC and Stillwater Trust LLC are affiliates of Stillwater Holdings LLC, our largest stockholder, which originally nominated him in 2012. From 2008 to 2011, Mr. Brody was the Chief Investment Officer of BAWAG P.S.K. Bank Fur Arbeit und Wirtschaft Und Osterreichische Sparkasse Aktiengesellschaft, a large Austrian commercial bank, and as a member of the management committee of its stockholder, BAWAG Holdings GmbH. He served on the boards of both companies. From 2001 to 2008, he served as Managing Director of Cerberus Capital Management L.P., an alternate asset hedge fund. He previously served on the boards of Scottish Re Group LTD (NYSE traded), and numerous other boards of private companies in the portfolio of Cerberus Capital Management L.P. Mr. Brody holds a B.A. from

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Brandeis University. Mr. Brody's U.S. and international business and financial knowledge and experience led to the conclusion that he should serve on the Board of Directors, given the Company's business and structure.

Paul Cronson

Paul Cronson has served as a director since July of 2003. Mr. Cronson is Managing Director of Larkspur Capital Corporation, which he co-founded in 1992. Larkspur is a broker dealer that is a member of FINRA and advises companies seeking private equity or debt. Mr. Cronson's career in finance began in 1979 at Laidlaw, Adams, & Peck where he worked in asset management and corporate finance. From 1983 to 1985, Mr. Cronson worked with Samuel Montagu Co., Inc. in London, where he marketed Eurobond issuers and structured transactions. Subsequently from 1985 to 1987, he was employed by Chase Investment Bank Ltd., where he structured international debt securities and developed synthetic asset products using derivatives. Returning to the U.S., he joined Peter Sharp Co., where he managed a real estate portfolio, structured financings and assisted with capital market investments until 1992. Mr. Cronson received his B.A. from Columbia College in 1979, and his M.B.A. from Columbia College in 1982. He is on the board of the Evelyn Sharp Foundation in New York, a private foundation supporting various not-for-profit endeavors. Mr. Cronson's business management and financial experience and knowledge led to the conclusion that he should serve on the Board of Directors, given the Company's business and structure.

Leslie G. Polgar

Dr. Leslie G. Polgar has served as a director since November of 2010. Dr. Polgar is an Adjunct Professor at St. Mary's College of California (2008 present), where he teaches Entrepreneurship in the Professional M.B.A. Program and Management of Innovation and Technology in the Executive M.B.A. Program. From 2005 to 2007, Dr. Polgar was chief executive officer and a member of the board of directors of Forth Dimension Displays Ltd. in Dalgety Bay, Scotland. From 2000 to 2003, Dr. Polgar was the founding president of Eastman Kodak's Display Products Business Unit, where he led the successful commercialization of the world's first full color, direct-view organic light emitting diode display (OLED). Dr. Polgar's board experience includes: Shotgun Players Theater Company (not-for-profit, US) and for-profits Interschola (US), Forth Dimension Displays (UK), SK Display (Japan), Bertram Labs/Chemetall GmbH (US-Germany), and Chemical Suppliers Inc. (US). Dr. Polgar earned an M.B.A. (U. of Connecticut), a Ph.D. and M.S. in physics (Carnegie Mellon University) and a B.S. in physics/math (U. of Michigan). Dr. Polgar's scientific and technical knowledge and his experience in the industry led to the conclusion that he should serve on the Board of Directors, given the Company's business and structure.

Ellen Richstone

Ellen Richstone began service as a director in July 2014. Ms. Richstone served as the Chief Financial Officer of several public and private companies between 1989 and 2012, including Rohr Aerospace, a Fortune 500 company. From 2002 to 2004, Ms. Richstone was the President and Chief Executive Officer of the Entrepreneurial Resources Group. From 2004 until its sale in 2007, Ms. Richstone served as the financial expert on the board of directors of American Power Conversion, an S&P 500 company. Ms. Richstone currently serves on, and was designated a financial expert by, the board of directors of BioAmber Inc., a publicly traded industrial biotechnology company producing sustainable chemicals, and Superior Industries. She also sits on the board of the National Association of Corporate Directors (NACD) in New England, as well as other non-profit organizations. In April 2013, Ms. Richstone was given the first annual Distinguished Director Award from the Corporate Directors Group. Ms. Richstone graduated from Scripps College in Claremont, California and holds graduate degrees from the Fletcher School of Law and Diplomacy at Tufts University. Ms. Richstone

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also completed the Advanced Professional Certificate in Finance at New York University's Graduate School of Business Administration and attended the Executive Development program at Cornell University's Business School. Ms. Richstone holds an Executive Master's Certification in Director Governance from the American College of Corporate Directors. Ms. Richstone's broad industry experience in technology and corporate governance expertise led to the conclusion that she should serve on the Board of Directors, given the Company's business and structure.

Stephen M. Seay

Brigadier General Stephen M. Seay, U.S. Army (Ret.) began service as a director in January 2006. In March 2016, Brig. General Seay became Director, Leadership and Career Development Strategies at the University of Central Florida Department of Athletics. His responsibilities include mentoring, coaching and advising students and student-athletes in career development opportunities in academia, government and industry, and toward successful employment upon graduation. He founded Seay Business Solutions, LLC, a Florida veteran-owned small business, in 2006, specializing in providing assistance to entrepreneurs and small businesses focused on working in defense. Retired Brig. General Seay provides expertise in high technology operational and integrated modeling, simulation, training and education, mission command, cyber operations, strategic planning, resource management/allocation/analysis, operations research and system life cycle planning, programming, execution, sustainment and life cycle system design. He held a wide variety of command and staff positions during his over thirty-three year Army career, culminating as the Commanding General, Joint Contracting Command-Iraq/Head of Contracting Authority, Operation Iraqi Freedom (2004-2005) and Program Executive Officer, Simulation, Training and Instrumentation (PEO STRI) from 2000-2005. He performs corporate and independent director responsibilities as a member of strategy, audit, compensation, finance, governance and executive committees. Brig. General Seay is the senior mentor/advisor for Talon Simulations, LLC, an entrepreneurial Florida small business, University of Central Florida graduate degree program and National Science Foundation grant awardee, focused on aviation simulation for training, and gaming, simulation focused on smaller aviation schools and instructional facilities. Additionally, in 2016, Brig. General Seay was selected to join the Proxy Board of Quantum 3D, Government Systems, Milpitas, CA. He serves on the Board of Directors and as Secretary, formerly Treasurer, Kid's House of Seminole County, Florida (children's advocacy), Orlando Science Center, Orlando, Florida (STEM) Director and on its Finance Committee, and is Secretary, National Modeling and Simulation Coalition (Industry professional). Brig. General Seay received his B.S. from the University of New Hampshire, where he was a three-sport student-athlete, and an M.S. from North Carolina State University. He taught Chemistry and coached lacrosse at the United States Naval Academy. Brig. General Seay is a recognized expert in operational training systems and programs. His Army operational experience and understanding of high technology devices, optics and digital displays, his business knowledge and experience in transitioning emerging technology into practical applications led to the conclusion that he should serve on the Board of Directors, given the Company's business and structure.

Jill J. Wittels

Dr. Wittels has served as a director and Chair of the Board since August, 2011. She served on the Board of Directors previously from 2003 to 2006. Dr. Wittels is currently the principal in Sostenuto Strategic Advisors, in which capacity she consults on business strategy and serves as a strategy advisor. She served on the Board of the Fermi National Accelerator Laboratory, a laboratory of the U.S. Department of Energy Office of High Energy Physics from 2013 to 2014 and also from June 1995 through June 2011. From 2001 until July 2011, Dr. Wittels was Corporate Vice President, Business and Technology Strategy of L-3 Communications. Her responsibilities at L-3 included strategies for growth, oversight of R&D, diligence support for M&A, and cross-company business development coordination. From 1979 to 2001, she held a variety of positions with BAE Systems, including Vice President and General Manager, Acting President and Vice President of Engineering. She served on the board of

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Innovative Micro Technology, Inc. from 2002 through July 2011 and on the board of Millivision, Inc. from 2002 to 2006. Dr. Wittels holds a B.S. and a Ph.D. in Physics, both from the Massachusetts Institute of Technology. Dr. Wittels' business management experience, her scientific knowledge, her knowledge of the Company, and her experience in developing strategy and strategic alliances led to the conclusion that she should serve on the Board of Directors, given the Company's business and structure.

There are no family relationships between any of our executive officers or directors.

Involvement in Certain Legal Proceedings

Pursuant to an Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Exchange Act, Making Findings, and Imposing a Cease-and-Desist Order and Civil Penalty dated September 10, 2014, the entry to which Mr. Cronson consented, the SEC found that Mr. Cronson had violated Section 16(a) of the Exchange Act and Rule 16a-3 promulgated thereunder by virtue of having failed to timely file a Form 4 reporting transactions in our Company's securities on numerous occasions during the calendar years 2010 through 2013. The SEC ordered Mr. Cronson to (i) cease and desist from committing or causing any future violations Section 16(a) of the Exchange Act and Rule 16a-3 promulgated thereunder, and (ii) pay a civil money penalty in the amount of $47,250. Other than the foregoing, there are currently no legal proceedings, and during the past 10 years there have been no legal proceedings, that are material to the evaluation of the ability or integrity of any of our directors or director nominees.

Committees Established by the Board

The Board of Directors has standing Audit, Compensation, and Governance and Nominating Committees. Information concerning the function of each Board committee follows.

Audit Committee

The Audit Committee is responsible for overseeing management's implementation of effective internal accounting and financial controls, supervising matters relating to audit functions, reviewing and setting internal policies and procedures regarding audits, accounting and other financial controls, reviewing the results of our audit performed by the independent public accountants, and evaluating and selecting the independent public accountants. The Audit Committee has adopted an Audit Committee Charter which is posted on our Corporate Governance landing page under the tab labeled "Investors" on our website at http://www.emagin.com. The information on our website is not part of this prospectus. The current members of the Audit Committee are Ellen Richstone (Chair), Paul Cronson, Leslie G. Polgar and Stephen M. Seay. The Board has determined that Ms. Richstone is an "audit committee financial expert" as defined by the SEC. During 2016, the Audit Committee held nine meetings in person or through conference calls.

Compensation Committee

The Compensation Committee determines matters pertaining to the compensation of our executive officers and outside directors and administers our stock option and incentive compensation plans. The Compensation Committee has adopted a Compensation Committee Charter which is posted on our Corporate Governance landing page under the tab labeled "Investors" on our website at http://www.emagin.com. The information on our website is not part of this prospectus. The current members of the Compensation Committee are Christopher Brody (Chair), Leslie G. Polgar and Stephen M. Seay. During 2016, the Compensation Committee held 6 meetings in person or through conference calls.

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Governance and Nominating Committee

The Governance and Nominating Committee is responsible for considering potential Board members, nominating Directors for election to the Board, implementing the Company's corporate governance policies, and for all other purposes outlined in the Governance and Nominating Committee Charter, which is posted on our Corporate Governance landing page under the tab labeled "Investors" on our website at http://www.emagin.com. The information on our website is not part of this prospectus. The current members of the Governance and Nominating Committee are Stephen M. Seay (Chair), Christopher Brody and Ellen Richstone. During 2016, the Governance and Nominating Committee held six meetings in person or through conference calls.

Board Meetings During Fiscal 2016

During 2016, the Board of Directors held six meetings. Each director attended all of the meetings of the Board and all of the meetings held by all committees on which such director served. The Board also approved certain actions by unanimous written consent. In addition, all of the directors were present in person at the annual meeting of our stockholders in 2016.

Board Leadership Structure, Independence and Role in Risk Oversight

The Company has separated the positions of Chair of the Board of Directors and Chief Executive Officer. Given the demanding nature of these positions, the Board believes it is appropriate to separate the positions of Chair and Chief Executive Officer. Our Chair presides over all meetings of the Board of Directors, including executive sessions of the independent directors which are held at each Board meeting. She briefs the Chief Executive Officer on issues arising in executive sessions and communicates frequently with him on matters of importance. She has responsibility for shaping the Board's agenda and consults with all directors to ensure that the board agendas and board materials provide the Board with the information needed to fulfill its responsibilities. From time to time she may also represent the Company in interactions with external stakeholders at the discretion of the Board.

The Board of Directors has determined that each of our current directors, except for Mr. Sculley, is an "independent director" as that term is defined in the listing standards of the NYSE American LLC. The Board of Directors has also determined that each member of the Audit Committee, Compensation Committee and Governance and Nominating Committee meets the independence standards applicable to those committees prescribed by the NYSE American LLC and the SEC. In making this decision, the Board considered all relationships between the Company and the directors. The Board determined each such relationship, and the aggregate of such relationships, to be immaterial to the applicable director's ability to exercise independent judgment.

Our Board has overall responsibility for risk oversight. The oversight is conducted primarily through committees of the Board of Directors, as disclosed in each of the descriptions of each of the committees above and in the charters of each of the committees, but the full Board of Directors has retained responsibility for general oversight of risks.

Code of Ethics and Business Conduct

We have adopted a Code of Ethics and Business Conduct that applies to all of our directors, officers and employees, including our Chief Executive Officer and Chief Financial Officer and principal accounting officer. The Code of Ethics and Business Conduct is posted on our website at http://www.emagin.com. The information on our website is not part of this prospectus.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Compensation Objectives

The objectives of our compensation program are as follows:

Attract, hire and retain well-qualified executives.

Reward performance that drives substantial increases in shareholder value, as evidenced through both future operating profits and increased market price of our common shares.

Compensation Setting Process

Role of Compensation Committee. The role of the Compensation Committee is to oversee the Company's executive compensation strategy, oversee the administration of its executive compensation and its equity based compensation plans, review and approve the compensation of the Company's Chief Executive Officer, and oversee the Company's compensation plan for the Board of Directors. The Compensation Committee is comprised exclusively of independent outside directors and includes members with executive level experience in other companies. In addition, the Compensation Committee compares executive compensation practices of similar companies at similar stages of development.

Role of Compensation Consultant. The Compensation Committee has the authority to engage its own advisors to assist in carrying out its responsibilities. Towers Watson, a global professional services company, was previously engaged by Compensation Committee to assist in the identification and selection of peer companies for purposes of comparing compensation practices and to provide guidance regarding the amount and types of compensation that we provide to our executives and Board of Directors, and on other compensation-related matters. In 2016, the Compensation Committee did not engage or receive services from Towers Watson or any other compensation consultant.

Role of Management. In setting compensation for 2017, our Chief Executive Officer worked closely with the Compensation Committee and attended the meetings of the Compensation Committee. Our Chief Executive Officer made recommendations to the Compensation Committee regarding compensation of our executive officers other than himself. No executive officer participated directly in the final deliberations regarding his own compensation package.

Use of Comparative Market Data. The Compensation Committee approved the 2016 peer group consisting of the following 17 companies. These companies were selected as peers based on their being in a similar industry, primarily manufacturers of electronic components or electronic equipment and instruments, and of a generally similar size, based mainly on revenue.

Clearfield, Inc.
Digital Ally Inc.
Inrad Optics Inc.
Intricon Corporation
Kopin Corporation
LightPath Technologies Inc.
Luna Inc.
LRAD Corporation
Mercury Computer Systems, Inc.
Micropac Industries Inc.
Microvision Inc.
Murata Manufacturing Co. Ltd.
NVE Corporation
SPI Energy Co., Ltd.
Supertex, Inc.
The LGL Group, Inc.
Universal Display Corporation

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Elements of Executive Compensation

The compensation level of our executives generally reflects their level of experience and is designed to provide an incentive to positively affect our future operating performance and shareholder value.

Base Salary. Base salary is the primary fixed element in the Company's compensation program and is intended to provide an element of certainty and security to the Company's executive officers on an ongoing basis. Base salaries are determined based on the executive's level of experience, specialty and responsibility. Executive base salaries are reviewed on an annual basis by the Compensation Committee. Any increases in base salary are based on an evaluation of the individual's performance, level of responsibility and, when such information is available, the level of pay compared to the salaries paid to persons in similar positions in the Company's peer group or as shown in survey data.

Mr. Sculley's base salary for 2016 was increased from $410,000 to $440,000, a 7.4% increase. Mr. Sculley's base salary had not been increased since 2014. In 2016, Dr. Ghosh received an increase in his base annual salaries of 6.7% from $300,000 to $320,000 and Mr. Lucas received an increase in his base annual salary of 2.9% from $345,000 to $355,000. Dr. Ghosh had not received an increase in his base annual salary since 2014 and Mr. Lucas had not received an increase in his base annual salary since joining the Company in September 2015.

Equity. Part of the compensation paid to our executives is in the form of equity, which to date has been exclusively through stock option grants. The stock option exercise price is generally equal to the fair market value of our common stock on the date of grant. Therefore, a gain is only recognized if the value of the stock increases, which promotes a long term alignment between the interests of the Company's executives and its stockholders. In 2016, the Compensation Committee awarded option grants to several employees and to the named executive officers. In addition, the time-based vesting features of our stock options contribute to executive retention. During 2016, the Compensation Committee awarded Mr. Sculley an option to purchase 150,000 shares of our common stock and an option to purchase 100,000 shares of common stock to each of Dr. Ghosh and Mr. Lucas.

Bonus. Our named executive officers are eligible to receive cash incentive awards that are tied to achieving performance metrics established by the Compensation Committee at the beginning of each year, with input from the Chief Executive Officer. Target bonuses for the named executive officers are set as a percentage of base salary. The program is funded by establishing a pool based on a percentage of annual EBITDA, which is then adjusted by an overall company performance modifier based on company performance to reach the final bonus pool. The program creates incentive for the named executive officers to direct their efforts toward achieving specified company goals and individual goals. For 2016 annual cash incentive bonuses, the Compensation Committee established goals related to the Company's financial performance and attainment of strategic milestones and approved individual goals for executives. In 2016, we fell short of reaching the Company's financial performance goals. Although we did not achieve the pre-determined financial performance and strategic milestone goals, we achieved other strategic milestones related to the development of certain technologies and attainment of certain production milestones and certain individual milestones were achieved. Accordingly, our named executive officers were awarded discretionary cash bonuses totaling $40,000 for 2016 performance.

Anti-Hedging Policy

Our insider trading policy prohibits directors and employees from engaging in short-term or speculative transactions such as trading in eMagin stock on a short-term basis, purchasing eMagin stock on the margin or engaging in short sales.

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Clawback Policy

Our Clawback Policy provides that the Company will seek to recover, under the direction of the Compensation Committee, any compensation paid to an executive officer of the Company which is subject to recovery under any law, government regulation or stock exchange listing requirement, through such deductions or clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement.

Summary Compensation Table

The following table sets forth information regarding compensation paid to our named executive officers for the years indicated.

Name and principal position	Year	Salary ($)	Bonus ($)	Option awards(1) ($)	All other compensation ($)	Total ($)
Andrew G. Sculley,	2017	440,000				440,000
President and Chief Executive Officer	2016	426,692	10,000	183,015		619,707
Amalkumar Ghosh,	2017	324,933				324,933
Senior Vice President, Research and Development	2016	304,500	20,000	122,010		446,510
Jeffrey P. Lucas,	2017	355,000				355,000
Chief Financial Officer and Chief Accounting Officer(2)	2016	349,673	10,000	122,010		481,683

(1) Amounts in this column represent the grant date fair value of options granted to the named executive officers during 2016, computed in accordance with FASB ASC Topic 718. These amounts do not necessarily correspond to the actual value that may be realized by the named executive officers. The assumptions made in valuing the options reported in this column are discussed in Note 10 to our financial statements for the year ended December 31, 2016, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

(2) Mr. Lucas was appointed Chief Financial Officer effective September 14, 2015. His annual base salary for 2015 was $345,000.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information with respect to the outstanding equity awards held by our named executive officers as of December 31, 2017.

Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Options exercise price ($)	Option expiration date
Andrew G. Sculley	188,333(1)		4.03	November 3, 2018
	600,000(2)	90,000	2.66	August 12, 2023
Amalkumar Ghosh	40,000(2)	60,000	2.66	August 12, 2023
Jeffrey P. Lucas	50,000(3)	25,000	2.50	September 14, 2020
	40,000(2)	60,000	2.66	August 12, 2023

(1) The shares underlying this stock option vested as follows: one third on June 1, 2012; one third on June 1, 2013; and the balance on December 31, 2013.

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(2) The shares underlying these stock options vest as follows: 20% of shares vested on the grant date of August 12, 2016 and 20% of the shares vest on each of the following four anniversaries of September 12, 2016.

(3) The shares underlying this stock option vest as follows: one third of the shares vested on September 14, 2016 and one third of the shares vests on each of the following two anniversaries of September 14, 2016.

Employment Agreements

Employment Agreement with Andrew G. Sculley

On July 1, 2016, the Company and Andrew G. Sculley, Jr. entered into an Amended and Restated Employment Agreement, which is referred to herein as the Sculley Employment Agreement. The term of the Sculley Employment Agreement will continue until December 31, 2018 unless it is terminated sooner pursuant to its terms. Mr. Sculley's current annual base salary is $440,000.

If Mr. Sculley's (i) employment is terminated without Cause (as defined in the Sculley Employment Agreement), (ii) employment is terminated or his position is significantly changed or salary decreased as a result of a Change of Control (as defined in the Sculley Employment Agreement) or (iii) if he terminates his employment for Good Reason (as defined in the Sculley Employment Agreement), then Mr. Sculley shall, at the Company's sole discretion, be entitled to the lesser of (i) the total amount of his base salary that remains unpaid under the Sculley Employment Agreement, which shall be paid monthly, or (ii) monthly salary payments for twelve (12) months, based on Mr. Sculley's monthly rate of base salary at the date of such termination, provided, however in lieu of the aforementioned monthly payments, the Company may in its sole discretion pay such payments in a lump-sum. Payment by the Company of the foregoing severance amounts is contingent upon Mr. Sculley's executing a release agreement substantially in the form attached as an exhibit to the Sculley Employment Agreement, and such release becoming effective, and only so long as Mr. Sculley does not revoke or breach the provisions of the such release or the restrictive covenants set forth in Sections 4 and 5 of the Sculley Employment Agreement. Mr. Sculley shall also be entitled to: (i) payment for accrued and unused vacation; (ii) the immediate vesting of any non-vested equity-related instruments granted pursuant to Section 2.6 of the Sculley Employment Agreement; and (iii) any bonuses which have accrued but remain unpaid prior to the date of Mr. Sculley's termination.

The Company has also agreed to amend any equity-related instruments granted to Mr. Sculley to permit the full exercise thereof following the termination of his employment without Cause, because of his Disability (as defined in the Sculley Employment Agreement) or death and to amend any equity-related instruments granted to him to permit the immediate full vesting and exercise thereof at any time after termination Mr. Sculley's employment without Cause or because of his Disability or death, to the same extent as Mr. Sculley's employment had not terminated. Mr. Sculley or his personal representative may accept either or both of such offers at any time before such equity-related instruments otherwise expire by giving written notice to the Company.

Offer Letter with Jeffrey P. Lucas

On September 14, 2015, the Company and Jeffrey P. Lucas entered into an offer letter. Mr. Lucas's current base salary is $355,000 and he is eligible for an annual incentive bonus targeted at 20% of his base salary, In the event that Mr. Lucas's employment is terminated by the Company for any reason other than for unsatisfactory performance or gross misconduct, he will receive severance equal to six months his salary at the time of termination.

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Change of Control Agreements

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

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

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

Director Compensation

The following table sets forth compensation information for our non-employee directors for the year ended December 31, 2017.

Name	Fees earned or paid in cash ($)	Option awards ($)(1)	Total ($)
Christopher Brody	40,000	50,000	90,000
Paul Cronson	40,000	50,000	90,000
Leslie G. Polgar	40,000	50,000	90,000
Ellen Richstone	45,000	50,000	95,000
Stephen M. Seay	40,000	50,000	90,000
Jill J. Wittels	70,000	98,750	168,750

(1) Amounts in this column represent the grant date fair value of options granted to the non-employee directors during 2017, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, which is referred to herein as FASB ASC Topic 718. These amounts do not necessarily correspond to the actual value that may be realized by the non-employee directors. The assumptions made in valuing the options reported in this column are discussed in Note 10 to our financial statements for the year ended December 31, 2016, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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(2) The following table sets forth the aggregate number of shares of our common stock underlying unexercised stock options held as of December 31, 2017 by each of the persons who served as a non-employee director during 2017:

	Number of Shares Underlying Options Outstanding as of December 31, 2017
Christopher Brody	261,569
Paul Cronson	482,651
Leslie G. Polgar	342,978
Ellen Richstone	188,496
Stephen M. Seay	546,151
Jill J. Wittels	542,317

Fees Earned or Paid in Cash

Board Retainer. Each non-employee director, except the Chair, received an annual cash retainer of $40,000 for his or her service as a member of the Board of Directors in 2017. The Audit Committee Chair received an additional annual retainer of $5,000 for her service in such role in 2017.

Meeting Fees. Members of the Board of Directors do not receive any additional fees for meeting attendance.

Option Awards

Each non-employee director, except the Chair, received equity compensation in the form of a stock option with a grant date fair value of $50,000 in 2017.

Chair of the Board

The Chair received an annual cash retainer of $70,000 and equity compensation in the form of a stock option with a grant date fair value of $98,750 in 2017.

2017 Non-Employee Director Compensation

On April 20, 2017, the Compensation Committee approved the following 2017 compensation for non-employee directors, excluding the Chair:

Annual cash retainer of $40,000

Stock option with a grant date fair value of $50,000

No meeting fees

For service in 2017, the Chair received an annual cash retainer of $70,000 and a stock option with a grant date fair value of $98,750. The Chair of the Audit Committee received an annual cash retainer of $5,000 in addition to the $40,000 annual cash retainer for service on the Board of Directors.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Transactions with Related Persons

At no time during 2016 or 2017 has any executive officer, director or any member of these individuals' immediate families, any corporation or organization with whom any of these individuals is an affiliate or any trust or estate in which any of these individuals serves as a trustee or in a similar capacity or has a substantial beneficial interest been indebted to the Company or been involved in any transaction in which the amount exceeded $120,000 and such person had a direct or indirect material interest.

On March 24, 2017, the Company entered into an unsecured debt financing arrangement, which is referred to herein as the Line Letter Agreement, with one of our largest stockholders Stillwater Trust LLC, which is referred to herein as Stillwater. Pursuant to the Line Letter Agreement, the Company may borrow up to $2 million for general working capital purposes and up to an additional $3 million should the Company's primary lender not provide borrowing availability under its normal terms and conditions, which is referred to herein as the Line.

Advances against the Line are available for working capital needs of the Company and for general corporate purposes. The Company may only borrow up to $2,000,000 unless the Company is unable to borrow further amounts under its financing agreement with Rosenthal & Rosenthal. All loans under the Line Letter Agreement mature and become immediately repayable upon the date that is the earliest to occur of (i) June 30, 2020, (ii) the closing date of any issuance or related issuance of securities of the Company by the Company or any of its subsidiaries in which the Company or such subsidiary receives gross proceeds of at least $5,000,000, and (iii) the occurrence of an Event of Default (as defined in the Line Letter Agreement). Loans under the Line Letter Agreement shall bear interest at 6.00% per annum, payable in kind. Upon the occurrence and during the continuance of an Event of Default, all loans under the Line Letter Agreement shall bear interest at a fixed rate of 11.00% per annum.

As additional consideration for the Line, the Company paid Stillwater a non-refundable origination fee of $50,000 and issued warrants to Stillwater to purchase up to 100,000 shares of the Company's common stock at an exercise price of $2.25 per share, the closing market price of the Company's common stock on the date the arrangement was executed. As additional consideration for the Line, with respect to each loan made under the Line Letter Agreement, the Company agreed to pay Stillwater, 180 days after each loan is made, which is referred to herein as the First Anniversary Date, and then each 90 days thereafter (each referred to herein as a Renewal Date and, together with the First Anniversary Date, an Anniversary Date), a non-refundable fee, equal to 2% of the principal balance of such loan outstanding on such Anniversary Date. As additional consideration for the Line, the Company also agreed to pay Stillwater a non-refundable fee in the amount of 2% of each loan. On May 24, 2017, the Company voluntarily terminated its unsecured debt financing arrangement with Stillwater. The Company did not incur any early termination penalties in connection with the termination of the Line. As of the date of its termination, there were no amounts outstanding under the Line.

Procedures for Approval of Related Party Transactions

Our Board of Directors is charged with reviewing and approving all potential related party transactions. All such related party transactions must then be reported to the extent required under applicable SEC rules. We have not adopted other procedures for review, or standards for approval, of such transactions, but instead review them on a case-by-case basis.

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PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our capital stock, as of December 31, 2017, by:

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our capital stock;
- each of our directors;
- each of our named executive officers; and
- all of our current executive officers and directors as a group.

The number of shares beneficially owned by each stockholder is determined under rules of the SEC and includes voting or investment power with respect to securities. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting power or investment power. In computing the number of shares beneficially owned by an individual or entity and the percentage ownership of that person, shares of common stock subject to options, warrants or other rights held by such person that are currently exercisable or will become exercisable within 60 days after December 31, 2017 are considered outstanding, although these shares are not considered outstanding for purposes of computing the percentage ownership of any other person.

We have based our calculation of the percentage of beneficial ownership prior to this offering on 35,020,523 shares of our common stock outstanding as of December 31, 2017. The calculation of the percentage of beneficial ownership after this offering gives effect to the issuance by us of 6,451,613 shares of common stock and warrants to purchase 2,580,645 shares of common stock in this offering. The percentage ownership information assumes no exercise of the underwriters' over-allotment option.

Unless otherwise indicated, the address of all listed stockholders is c/o eMagin Corporation, 2070 Route 52, Hopewell Junction, New York 12533. Each of the stockholders listed has sole voting and investment power with respect to the shares beneficially owned by the stockholder unless noted otherwise.

Name of Beneficial Owner	Common Stock Beneficially Owned**	Percentage of Common Stock Before this Offering**	Percentage of Common Stock After this Offering**
Stillwater Holdings LLC (f/k/a Stillwater LLC)(1)	16,159,160	37.92%	32.93%
Ginola Limited(2)	4,980,694	13.39%	9.18%
Rainbow Gate Corporation(3)	1,720,658	4.79%	4.06%
Paul Cronson(4)	811,122	2.27%	1.93%
Andrew G. Sculley(5)	537,133	1.52%	1.29%
Jill J. Wittels(6)	542,317	1.52%	1.29%
Stephen Seay(7)	546,151	1.54%	1.30%
Leslie G. Polgar(8)	642,978	*	
Christopher Brody(9)	261,569	*	
Ellen Richstone(10)	188,496	*	
Amalkumar Ghosh(11)	60,485	*	
Olivier Prache(12)	40,181	*	
Jeffrey P. Lucas(13)	89,950	*	
Stephen Costello		0%	
All current executive officers and directors as a group (consisting of 11 individuals)	3,437,132	9.69%	8.22%

* Less than 1% of the outstanding common stock.

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**

Beneficial Ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options, warrants, or preferred shares exercisable or convertible within 60 days of December 31, 2017 are deemed outstanding for computing the percentage of the person holding such option or warrant.

(1)

This figure represents: (i) 8,556,826 shares of common stock owned by Stillwater Holdings LLC (f/k/a Stillwater LLC), which includes 4,250,000 shares of common stock placed with Flat Creek Fiduciary Management LLC as trustee of a trust for the benefit of minor beneficiaries of the sole member of Stillwater Holdings LLC, in which the sole member of Stillwater Holdings LLC has investment control; 2,250,000 shares of common stock held by Stillwater Trust LLC in which the sole member of Stillwater Holdings LLC has investment control; and 783,325 shares of common stock owned by Rainbow Gate Corporation of which the sole member of Stillwater Holdings LLC is the investment manager; (ii) 6,314,666 shares of common stock underlying Series B Convertible Preferred Stock which includes 937,333 shares of common stock underlying Series B Convertible Preferred Stock held by Rainbow Gate Corporation of which the sole member of Stillwater Holdings LLC is the investment manager; and (iii) 1,277,668 shares underlying common stock warrants. Mortimer D. A. Sackler exercises sole voting power with respect to the shares held in the name of Stillwater Holdings LLC as sole member, Mortimer D. A. Sackler exercises sole voting power with respect to the shares held in the name of Rainbow Gate Corporation as investment manager, Mortimer D. A. Sackler exercises sole voting power with respect to the shares held in the name of Stillwater Trust LLC as sole member and President and Mortimer D.A. Sackler has investment control with respect to the shares held in the name of Flat Creek Fiduciary Management LLC, as trustee; therefore Stillwater Holdings LLC is deemed to beneficially own the shares held by Rainbow Gate Corporation and Flat Creek Fiduciary Management LLC.

(2)

This figure represents: (i) 2,799,361 shares of common stock owned by Ginola Limited, which include: 783,325 shares of common stock held indirectly by Rainbow Gate Corporation; 78,478 shares of common stock owned by Mount Union Corp.; and 57,372 shares of common stock owned by Chelsea Trust Company Limited, as trustee (Ginola Limited disclaims beneficial ownership of the shares owned by Rainbow Gate Corporation, Mount Union Corp. and Chelsea Trust Company Limited, as trustee); and (ii) 173,333 shares underlying common stock warrants; and (iii) 2,008,000 shares of common stock underlying Series B Convertible Preferred Stock, which includes 937,333 shares of common stock underlying Series B Convertible Preferred Stock held by Rainbow Gate Corporation. Stillwater Holdings LLC (f/k/a Stillwater LLC) and Ginola Limited are beneficially owned by separate parties and therefore do not exert voting control over one another. However, the figure for Stillwater Holdings LLC includes the shares held by Rainbow Gate Corporation and the sole member of Stillwater Holdings LLC is the investment manager and sole director of Rainbow Gate Corporation that exerts voting control over such shares. Jonathan White, Geraldine McNaney and Joerg Fischer exercise shared voting power with respect to the shares held in the name of Mount Union Corp. Stuart Baker, Joerg Fischer, Leslie Schreyer and Jonathan White exercise shared voting power with respect to the shares held in the name of Chelsea Trust Company Limited. Jonathan White, Joerg Fischer and Philip Le Cornu are the directors of Ginola Limited and exercise shared voting power with respect to the shares held in the name of Ginola Limited.

(3)

This figure represents 783,325 shares of common stock owned by Rainbow Gate Corporation and 937,333 shares of common stock underlying Series B Convertible Preferred Stock held by Rainbow Gate Corporation. Mortimer D. Sackler exercises the sole voting power with respect to the shares held in the name of Rainbow Gate Corporation.

(4)

This figure represents 168,471 shares of common stock owned by Mr. Cronson, 482,651 shares of common stock underlying options, and 160,000 shares of common stock underlying Series B Convertible Preferred Stock held directly and indirectly by Paul Cronson. This includes (i) 13,294 shares of common stock held indirectly by a family member of Paul Cronson; and (ii) 155,177 shares of common stock and 160,000 shares of common stock underlying Series B Convertible Preferred Stock held indirectly by Navacorp III, LLC. Mr. Cronson exercises sole voting power with respect to the shares held in the name of Navacorp III, LLC.

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(5) This figure represents 288,800 shares of common stock owned by Andrew G. Sculley and 248,333 shares underlying options.

(6) This figure represents shares underlying options.

(7) This figure represents shares underlying options.

(8) This figure represents shares underlying options.

(9) This figure represents shares underlying options.

(10) This figure represents shares underlying options.

(11) This figure represents 20,585 shares of common stock owned by Amalkumar Ghosh and 40,000 shares underlying options.

(12) This figure represents 181 shares of common stock owned by Olivier Prache and 40,000 shares underlying options.

(13) This figure represents shares underlying options.

There are no arrangements known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

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DESCRIPTION OF CAPITAL STOCK

General

Our authorized capital stock consists of 200,000,000 shares of common stock, $0.001 par value per share, and 10,000,000 shares of preferred stock, $0.001 par value per share. As of December 31, 2017, there were 35,020,523 shares of our common stock outstanding, 5,659 shares of our preferred stock outstanding, warrants issued in December 2015 to purchase 383,500 shares of our common stock, warrants issued in August 2016 to purchase 2,947,949 shares of our common stock outstanding, warrants issued in March 2017 to purchase 100,000 shares of our common stock outstanding and warrants issued in May 2017 to purchase 1,749,000 shares of our common stock outstanding.

The following summary description of our capital stock is based on the provisions of our amended and restated certificate of incorporation, amended and restated bylaws, outstanding warrants and the applicable provisions of the Delaware General Corporation Law. This summary does not purport to be complete and is qualified entirely by reference to the applicable provisions of our amended and restated certificate of incorporation, amended and restated bylaws, outstanding warrants and the Delaware General Corporation Law. For information on how to obtain copies of our amended and restated certificate of incorporation and amended and restated bylaws, which are exhibits to the registration statement of which this prospectus is a part, see "Where You Can Find Additional Information".

Common Stock

We may issue shares of our common stock from time to time. Holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of our common stock do not have cumulative voting rights in the election of directors. Subject to the preferences that may be applicable to any then outstanding preferred stock, holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by our Board of Directors out of funds legally available therefor. Upon the liquidation, dissolution, or winding up of our company, holders of common stock are entitled to share ratably in all of our assets which are legally available for distribution after payment of all debts and other liabilities and liquidation preference of any outstanding preferred stock. There are no sinking fund provisions applicable to our common stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

Warrants

As of December 31, 2017, we had warrants outstanding and exercisable for 5,563,949 shares of our common stock. Below is a summary of our outstanding warrants.

2015 Warrants

The material terms and provisions of the 2015 warrants are summarized below. The following description is subject to, and qualified in its entirety by, the form of 2015 warrant, which is filed as an exhibit to the registration statement of which this prospectus is a part. You should review a copy of the form of 2015 warrant for a complete description of the terms and conditions applicable to the 2015 warrants.

Term. The 2015 warrants became exercisable commencing six months after the date of issuance, for five years, but not thereafter.

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Exercise Price. The exercise price of the 2015 warrants is $2.05 per share. The exercise price and number of shares of our common stock issuable upon the exercise of the 2015 warrants is subject to adjustment in the event of any stock dividends and splits, reverse stock split, stock dividend, recapitalization, reorganization or similar transaction.

Exercisability. The 2015 warrants became exercisable commencing six months after the date of issuance and are exercisable at any time during the applicable term of the 2015 warrant. The 2015 warrants are exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise. If there is no effective registration statement registering the issuance of the shares underlying the 2015 warrants, then the 2015 warrants may be exercised by means of a cashless exercise.

No Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the 2015 warrants. As to any fraction of a share which the holder would otherwise be entitled to purchase upon such exercise, we shall, at our election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the exercise price of the 2015 warrant or round up to the next whole share.

Transferability. Subject to applicable laws, the 2015 warrants may be transferred at the option of the holder upon surrender of the 2015 warrants to us together with the appropriate instruments of transfer.

Authorized Shares. During the period the 2015 warrants are outstanding, we will reserve from our authorized and unissued common stock a sufficient number of shares to provide for the issuance of shares of common stock underlying the 2015 warrants upon the exercise of the 2015 warrants.

Fundamental Transactions. In the event of any fundamental transaction, as described in the 2015 warrants and generally, including any merger with or into another entity, sale of all or substantially all of our assets, tender offer or exchange offer, or reclassification of our common stock, then upon any subsequent exercise of a 2015 warrant the holder shall have the right to receive as alternative consideration, for each share of our common stock that would have been issuable upon such exercise immediately prior to the occurrence of such fundamental transaction, the number of shares of common stock of the successor or acquiring corporation or of us, if we are the surviving corporation, and any additional consideration receivable upon or as a result of such transaction by a holder of the number of shares of our common stock for which the 2015 warrant is exercisable immediately prior to such event.

Right as a Stockholder. Except as otherwise provided in the 2015 warrants or by virtue of such holder's ownership of shares of our common stock, the holders of the 2015 warrants do not have the rights or privileges of holders of our common stock, including any voting rights, until they exercise their 2015 warrants.

Waivers and Amendments. The terms of any 2015 warrant may be amended or waived with our written consent and the written consent of the holder of such 2015 warrant.

Beneficial Ownership Limitation. Subject to limited exceptions, a holder of 2015 warrants does not have the right to exercise any portion of its warrants if the holder, together with its affiliates, would beneficially own in excess of 4.99% of the number of shares of our common stock outstanding immediately after giving effect to such exercise.

2016 Warrants

The material terms and provisions of the 2016 warrants are summarized below. The following description is subject to, and qualified in its entirety by, the form of 2016 warrant, which is filed as an

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exhibit to the registration statement of which this prospectus is a part. You should review a copy of the form of 2016 warrant for a complete description of the terms and conditions applicable to the 2016 warrants.

Term. The 2016 warrants became exercisable six months after the date of issuance for five years, but not thereafter.

Exercise Price. The exercise price of the 2016 warrants is $2.60 per share. The exercise price and number of shares of our common stock issuable upon the exercise of the 2016 warrants is subject to adjustment in the event of any stock dividends and splits, reverse stock split, stock dividend, recapitalization, reorganization or similar transaction. The exercise price can also be lowered by us, with the prior written consent of the holders of a majority in interest of the 2016 warrants then outstanding, unless prohibited by the listing rules of the exchange on which our common stock is listed.

Exercisability. The 2016 warrants became exercisable commencing six months after the date of issuance and are exercisable at any time during the applicable term of the 2016 warrant. The 2016 warrants are exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise. If there is no effective registration statement registering the issuance of the shares underlying the 2016 warrants, then the 2016 warrants may be exercised by means of a cashless exercise.

No Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the 2016 warrants. As to any fraction of a share which the holder would otherwise be entitled to purchase upon such exercise, we shall, at our election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the exercise price of the 2016 warrant or round up to the next whole share.

Transferability. Subject to applicable laws, the 2016 warrants may be transferred at the option of the holder upon surrender of the 2016 warrants to us together with the appropriate instruments of transfer, provided that we may require an opinion of counsel in connection with certain transfers.

Authorized Shares. During the period the 2016 warrants are outstanding, we will reserve from our authorized and unissued common stock a sufficient number of shares to provide for the issuance of shares of common stock underlying the 2016 warrants upon the exercise of the 2016 warrants.

Fundamental Transactions. In the event of any fundamental transaction, as described in the 2016 warrants and generally, including any merger with or into another entity, sale of all or substantially all of our assets, tender offer or exchange offer, or reclassification of our common stock, then upon any subsequent exercise of a 2016 warrant the holder shall have the right to receive as alternative consideration, for each share of our common stock that would have been issuable upon such exercise immediately prior to the occurrence of such fundamental transaction, the number of shares of common stock of the successor or acquiring corporation or of us, if we are the surviving corporation, and any additional consideration receivable upon or as a result of such transaction by a holder of the number of shares of our common stock for which the 2016 warrant is exercisable immediately prior to such event.

Right as a Stockholder. Except as otherwise provided in the 2016 warrants or by virtue of such holder's ownership of shares of our common stock, the holders of the 2016 warrants do not have the rights or privileges of holders of our common stock, including any voting rights, until they exercise their 2016 warrants.

Waiver and Amendments. The terms of any 2016 warrant, other than a lowering of the exercise price as described above, may be amended or waived with our written consent and the written consent of the holder of such 2016 warrant.

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Beneficial Ownership Limitation. Subject to limited exceptions, a holder of 2016 warrants does not have the right to exercise any portion of its warrants if the holder, together with its affiliates, would beneficially own in excess of 4.99% of the number of shares of our common stock outstanding immediately after giving effect to such exercise.

Financing Warrants

On March 24, 2017, we entered into an unsecured debt financing arrangement with Stillwater Trust LLC, or Stillwater. In connection with the financing arrangement, Stillwater received a warrant to purchase 100,000 shares of our common stock at an exercise price of $2.25 per share, the closing market price of our common stock on the date the financing arrangement was executed. On May 24, 2017, we voluntarily terminated the financing arrangement. As of the date of its termination, there were no amounts outstanding under the financing arrangement.

The material terms and provisions of the financing warrant are summarized below. The following description is subject to, and qualified in its entirety by, the form of financing warrant, which is filed as an exhibit to the registration statement of which this prospectus is a part. You should review a copy of the form of financing warrant for a complete description of the terms and conditions applicable to the financing warrant.

Term. The financing warrants became exercisable six months after the date of issuance for five years, but not thereafter.

Exercise Price. The exercise price of the financing warrants is $2.25 per share. The exercise price and number of shares of our common stock issuable upon the exercise of the financing warrants is subject to adjustment in the event of any stock dividends and splits, reverse stock split, stock dividend, recapitalization, reorganization or similar transaction. The exercise price can also be lowered by us, with the prior written consent of the holders of a majority in interest of the financing warrants then outstanding, unless prohibited by the listing rules of the exchange on which our common stock is listed.

Exercisability. The financing warrants became exercisable commencing six months after the date of issuance and are exercisable at any time during the applicable term of the financing warrant. The financing warrants are exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise.

No Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the financing warrants. As to any fraction of a share which the holder would otherwise be entitled to purchase upon such exercise, we shall, at our election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the exercise price of the financing warrant or round up to the next whole share.

Transferability. Subject to applicable laws, the financing warrants may be transferred at the option of the holder upon surrender of the financing warrants to us together with the appropriate instruments of transfer, provided that we may require an opinion of counsel in connection with certain transfers.

Authorized Shares. During the period the financing warrants are outstanding, we will reserve from our authorized and unissued common stock a sufficient number of shares to provide for the issuance of shares of common stock underlying the financing warrants upon the exercise of the financing warrants.

Fundamental Transactions. In the event of any fundamental transaction, as described in the financing warrants and generally, including any merger with or into another entity, sale of all or substantially all of our assets, tender offer or exchange offer, or reclassification of our common stock, then upon any subsequent exercise of a financing warrant the holder shall have the right to receive as

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alternative consideration, for each share of our common stock that would have been issuable upon such exercise immediately prior to the occurrence of such fundamental transaction, the number of shares of common stock of the successor or acquiring corporation or of us, if we are the surviving corporation, and any additional consideration receivable upon or as a result of such transaction by a holder of the number of shares of our common stock for which the financing warrant is exercisable immediately prior to such event.

Right as a Stockholder. Except as otherwise provided in the financing warrants or by virtue of such holder's ownership of shares of our common stock, the holders of the financing warrants do not have the rights or privileges of holders of our common stock, including any voting rights, until they exercise their financing warrants.

Waiver and Amendments. The terms of any financing warrant, other than a lowering of the exercise price as described above, may be amended or waived with our written consent and the written consent of the holder of such financing warrant.

2017 Warrants

The material terms and provisions of the 2017 warrants are summarized below. The following description is subject to, and qualified in its entirety by, the form of 2017 warrant, which is filed as an exhibit to the registration statement of which this prospectus is a part. You should review a copy of the form of 2017 warrant for a complete description of the terms and conditions applicable to the 2017 warrants.

Term. The 2017 warrants are immediately exercisable upon issuance for five years from the date of issuance, but not thereafter.

Exercise Price. The exercise price of the 2017 warrants is $2.45 per share. The exercise price and number of shares of our common stock issuable upon the exercise of the 2017 warrants is subject to adjustment in the event of any stock dividends and splits, reverse stock split, stock dividend, recapitalization, reorganization or similar transaction. The exercise price can also be lowered by us, with the prior written consent of the holders of a majority in interest of the 2017 warrants then outstanding, unless prohibited by the listing rules of the exchange on which our common stock is listed.

Exercisability. The 2017 warrants are immediately exercisable upon issuance and are exercisable at any time during the applicable term of the 2017 warrant. The 2017 warrants are exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise. If there is no effective registration statement registering the issuance of the shares underlying the 2017 warrants, then the 2017 warrants may be exercised by means of a cashless exercise.

No Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the 2017 warrants. As to any fraction of a share which the holder would otherwise be entitled to purchase upon such exercise, we shall, at our election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the exercise price of the 2017 warrants or round up to the next whole share.

Transferability. Subject to applicable laws, the 2017 warrants may be transferred at the option of the holder upon surrender of the 2017 warrants to us together with the appropriate instruments of transfer, provided that we may require an opinion of counsel in connection with certain transfers.

Authorized Shares. During the period the 2017 warrants are outstanding, we will reserve from our authorized and unissued common stock a sufficient number of shares to provide for the issuance of shares of common stock underlying the 2017 warrants upon the exercise of the 2017 warrants.

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Fundamental Transactions. In the event of any fundamental transaction, as described in the 2017 warrants and generally, including any merger with or into another entity, sale of all or substantially all of our assets, tender offer or exchange offer, or reclassification of our common stock, then upon any subsequent exercise of a 2017 warrant the holder shall have the right to receive as alternative consideration, for each share of our common stock that would have been issuable upon such exercise immediately prior to the occurrence of such fundamental transaction, the number of shares of common stock of the successor or acquiring corporation or of us, if we are the surviving corporation, and any additional consideration receivable upon or as a result of such transaction by a holder of the number of shares of our common stock for which the 2017 warrant is exercisable immediately prior to such event. Any successor to us or surviving entity is obligated to assume the obligations under the 2017 warrants.

Right as a Stockholder. Except as otherwise provided in the 2017 warrants or by virtue of such holder's ownership of shares of our common stock, the holders of the 2017 warrants do not have the rights or privileges of holders of our common stock, including any voting rights, until they exercise their 2017 warrants.

Waiver and Amendments. The terms of any 2017 warrant, other than a lowering of the exercise price as described above, may be amended or waived with our written consent and the written consent of the holder of such 2017 warrant.

Beneficial Ownership Limitation. Subject to limited exceptions, a holder of 2017 warrants does not have the right to exercise any portion of its warrants if the holder, together with its affiliates, would beneficially own in excess of 9.99% of the number of shares of our common stock outstanding immediately after giving effect to such exercise.

Warrants to be Issued in this Offering

The material terms and provisions of the warrants being issued in this offering are summarized below. The following description is subject to, and qualified in its entirety by, the form of warrant, which will be filed as an exhibit to the registration statement of which this prospectus is a part. You should review a copy of the form of warrant for a complete description of the terms and conditions applicable to the warrants.

Term. The warrants are immediately exercisable upon issuance for five years from the date of issuance, but not thereafter.

Exercise Price. The exercise price of the warrants is $ per share. The exercise price and number of shares of our common stock issuable upon the exercise of the warrants is subject to adjustment in the event of any stock dividends and splits, reverse stock split, stock dividend, recapitalization, reorganization or similar transaction. The exercise price can also be lowered by us, with the prior written consent of the holders of a majority in interest of the warrants then outstanding, unless prohibited by the listing rules of the exchange on which our common stock is listed.

Exercisability. The warrants are immediately exercisable upon issuance and are exercisable at any time during the applicable term of the warrant. The warrants are exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise. If there is no effective registration statement registering the issuance of the shares underlying the warrants, then the warrants may be exercised by means of a cashless exercise.

No Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the warrants. As to any fraction of a share which the holder would otherwise be entitled to purchase upon such exercise, we shall, at our election, either pay a cash adjustment in

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respect of such final fraction in an amount equal to such fraction multiplied by the exercise price of the warrant or round up to the next whole share.

Transferability. Subject to applicable laws, the warrants may be transferred at the option of the holder upon surrender of the warrants to us together with the appropriate instruments of transfer, provided that we may require an opinion of counsel in connection with certain transfers.

Authorized Shares. During the period the warrants are outstanding, we will reserve from our authorized and unissued common stock a sufficient number of shares to provide for the issuance of shares of common stock underlying the warrants upon the exercise of the warrants.

Fundamental Transactions. In the event of any fundamental transaction, as described in the warrants and generally, including any merger with or into another entity, sale of all or substantially all of our assets, tender offer or exchange offer, or reclassification of our common stock, then upon any subsequent exercise of a warrant the holder shall have the right to receive as alternative consideration, for each share of our common stock that would have been issuable upon such exercise immediately prior to the occurrence of such fundamental transaction, the number of shares of common stock of the successor or acquiring corporation or of us, if we are the surviving corporation, and any additional consideration receivable upon or as a result of such transaction by a holder of the number of shares of our common stock for which the warrant is exercisable immediately prior to such event. Any successor to us or surviving entity is obligated to assume the obligations under the warrants.

Right as a Stockholder. Except as otherwise provided in the warrants or by virtue of such holder's ownership of shares of our common stock, the holders of the warrants do not have the rights or privileges of holders of our common stock, including any voting rights, until they exercise their warrants.

Waiver and Amendments. The terms of any warrant, other than a lowering of the exercise price as described above, may be amended or waived with our written consent and the written consent of the holder of such warrant.

Beneficial Ownership Limitation. Subject to limited exceptions, a holder of warrants will not have the right to exercise any portion of its warrants if the holder (together with such holder's affiliates, and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own a number of shares of our common stock in excess of 4.99% (or, at the election of the holder, 9.99%) of the shares of our common stock then outstanding immediately after giving effect to such exercise (the "Beneficial Ownership Limitation"); provided, however, that upon notice to us, the holder may increase or decrease the Beneficial Ownership Limitation; provided, further, that in no event shall the Beneficial Ownership Limitation exceed 9.99% and in no event shall any increase in the Beneficial Ownership Limitation be effective until 61 days following notice of such increase from the holder to us.

Preferred Stock

We may issue shares of our preferred stock from time to time, in one or more series. The 10,000,000 shares of preferred stock authorized are undesignated as to preferences, privileges and restrictions. Our Board of Directors will determine the rights, preferences and privileges of the shares of each wholly unissued series, and any qualifications, limitations or restrictions thereon, including dividend rights, conversion rights, preemptive rights, terms of redemption or repurchase, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of any series.

On December 19, 2008, we filed a Certificate of Designations with the State of Delaware which designates 10,000 shares of our preferred stock as Series B Convertible Preferred Stock. The preferred

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stock has a stated value of $1,000 and has a conversion price of $0.75 per share. The preferred stock does not pay interest. The holders of the preferred stock are not entitled to receive dividends unless the Board of Directors declares a dividend for holders of our 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 into shares of our common stock. Each share of preferred stock has voting rights equal to (i) the number of shares of our common stock issuable upon conversion of such shares of preferred stock 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 votes together with our common stock or any other class or series of our capital stock and (ii) one vote per share of preferred stock when such vote is not covered by the immediately preceding clause. In the event of our liquidation, dissolution, or winding up, the preferred stock is entitled to receive liquidation preference before the common stock. We may at our option redeem the preferred stock by providing the required notice to the holders of the preferred stock 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 to be redeemed.

The General Corporation Law of the State of Delaware, the state of our incorporation, provides that the holders of preferred stock will have the right to vote separately as a class (or, in some cases, as a series) on an amendment to our amended and restated certificate of incorporation if the amendment would change the par value, the number of authorized shares of the class or the powers, preferences or special rights of the class or series so as to adversely affect the class or series, as the case may be. This right is in addition to any voting rights that may be provided for in the applicable certificate of designation.

Our Board of Directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in our control and may adversely affect the market price of the common stock and the voting and other rights of the holders of common stock. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of our common stock.

Delaware Law and Certain Charter and By-law Provisions

Provisions of Delaware law, our certificate of incorporation and our by-laws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable. These provisions may also prevent or delay attempts by stockholders to replace or remove our current management or members of our Board of Directors. These provisions include:

- limitations on the removal of directors;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings;
- the ability of our Board of Directors to make, alter or repeal our by-laws; and
- the authority of our Board of Directors to issue preferred stock with such terms as our Board of Directors may determine.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law statute. Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales and other transactions resulting in a financial

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benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within the prior three years did own, 15% or more of the corporation's voting stock.

Our certificate of incorporation contains certain provisions permitted under Delaware General Corporation Law relating to the liability of directors. The provisions eliminate a director's liability for monetary damages for a breach of fiduciary duty, except in certain circumstances where such liability may not be eliminated under applicable law. Further, our certificate of incorporation contains provisions to indemnify our directors and officers to the fullest extent permitted by Delaware General Corporation Law.

Transfer Agent and Registrar

Our transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company, 1 State Street, 30th Floor, New York, NY 10004.

Listing

Our common stock is listed on the NYSE American under the symbol "EMAN."

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CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS

This section summarizes certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of common stock and warrants by "U.S. Holders" (as defined below), but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed or subject to differing interpretations, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary also does not address the tax considerations arising under the laws of any U.S. state or local or any non-U.S. jurisdiction, the Medicare tax on net investment income or any alternative minimum tax consequences. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

a broker, dealer or trader in securities, currencies, commodities, or notional principal contracts;

a bank, financial institution or insurance company;

a regulated investment company, a real estate investment trust or grantor trust;

a tax-exempt entity or organization, including an individual retirement account or Roth IRA as defined in Section 408 or 408A of the Code, respectively;

a person holding the common stock or warrants as part of a hedging, integrated, or conversion transaction or a straddle, or a person deemed to sell common stock or warrants under the constructive sale provisions of the Code;

a trader in securities that has elected the mark-to-market method of tax accounting for securities

an entity that is treated as a partnership or other pass-through entity for U.S. federal income tax purposes;

a person who is a partner or investor in a partnership or other pass-through entity that holds the common stock or warrants;

a U.S. person whose "functional currency" is not the U.S. dollar;

persons who do not hold our common stock or warrants units as capital assets within the meaning of Section 1221 of the Code (generally, for investment purposes);

persons that acquire our common stock or warrants through the exercise of employee stock options or otherwise as compensation for services;

certain U.S. expatriates; or

non-U.S. holders.

For purposes of this discussion, a "U.S. holder" is a beneficial owner of a warrant or a share of common stock that is, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

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an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if (1) it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership holds shares of common stock or warrants, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partnership holding shares of common stock or warrants or a partner therein should consult its own tax advisors as to the tax consequences of holding and disposing of the warrants or shares of common stock.

YOU ARE URGED TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR SITUATION, AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK OR WARRANTS ARISING UNDER THE U.S. FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY U.S. STATE OR LOCAL OR ANY NON-U.S. OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Investment Unit

The common stock and warrants should be treated for U.S. federal income tax purposes as an investment unit consisting of one share of our common stock and one warrant to acquire shares of our common stock. For U.S. federal income tax purposes, the purchase price paid for each investment unit will be allocated between the shares of common stock and the warrants based on their respective relative fair market values. This allocation will be based upon our determination of the relative values of the warrants and of our common stock, which we will complete following the closing of this offering. Pursuant to this treatment, a holder's initial tax basis in the common stock and the warrants included in each unit should equal the portion of the purchase price of the unit allocated thereto. While uncertain, the IRS, by analogy to the rules relating to the allocation of the purchase price to components of a unit consisting of debt and equity, may take the position that this allocation is binding on you unless you explicitly disclose in a statement attached to your timely filed U.S. federal income tax return for the tax year that includes your acquisition date of the unit that your allocation of the purchase price is different than our allocation. This allocation is not binding, however, on the IRS or the courts. Prospective investors are urged to consult their tax advisors regarding the U.S. federal income tax consequences of an investment in a unit, and the allocation of the purchase price paid for a unit.

Certain U.S. Federal Income Tax Considerations for U.S. Holders of Common Stock and Warrants

Dividends on our Common Stock

We do not expect to declare or pay any distributions on our common stock in the foreseeable future. If we do make any distributions on shares of our common stock, however, such distributions will be includible in the gross income of a U.S. holder as ordinary dividend income to the extent paid out of current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Any portion of a distribution in excess of current or accumulated earnings and profits would be treated as a return of the holder's tax basis in its common stock and then as gain from the sale or exchange of the common stock. Under current law, if certain requirements are met, a preferential U.S. federal income tax rate will apply to any dividends paid to a holder of common stock who is a U.S. individual.

Distributions to U.S. holders that are corporate stockholders, constituting dividends for U.S. federal income tax purposes, may qualify for the dividends received deduction, or DRD, which is

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generally available to corporate stockholders. No assurance can be given that we will have sufficient earnings and profits (as determined for U.S. federal income tax purposes) to cause any distributions to be eligible for a DRD. In addition, a DRD is available only if certain holding periods and other taxable income requirements are satisfied.

Sale or Other Disposition of Common Stock or Warrants

A U.S. holder of common stock or warrants will generally recognize gain or loss on the taxable sale, exchange, or other taxable disposition of such stock or warrants in an amount equal to the difference between such U.S. holder's amount realized on the sale and its adjusted tax basis in the common stock or warrants sold. A U.S. holder's amount realized should equal the amount of cash and the fair market value of any property received in consideration of its stock or warrants. The gain or loss should be capital gain or loss and should be long-term capital gain or loss if the common stock or warrants are held for more than one year at the time of disposition. The deductibility of capital losses for U.S. federal income tax purposes is subject to limitations under the Code. Under current law, long-term capital gain recognized by an individual U.S. holder is generally eligible for a preferential U.S. federal income tax rate.

Exercise of Warrants

Except as discussed below with respect to a cashless exercise of a warrant or with respect to cash in lieu of a fractional share, upon the exercise of a warrant for common stock, a U.S. holder generally will not recognize gain or loss and will have a tax basis in the common stock received upon exercise equal to the U.S. holder's tax basis in the warrant, plus the exercise price of the warrant less any portion of the tax basis attributable to receipt of cash in lieu of a fractional share. The holding period for the common stock purchased pursuant to the exercise of a warrant will begin on the date following the date of exercise and will not include the period during which the U.S. holder held the warrant. Your receipt of cash in lieu of a fractional share of common stock will generally be treated as if you received the fractional share and then received such cash in redemption of such fractional share. Such redemption will generally result in the recognition of capital gain or loss equal to the difference between the amount of cash received and your adjusted U.S. federal income tax basis in the warrant that is allocable to the fractional share you are deemed to have received.

The tax treatment of a cashless exercise of a warrant (i.e., where a portion of the holder's warrants are surrendered (the "Surrendered Warrants") as the exercise price for other warrants to be exercised (the "Exercised Warrants") is uncertain. Although the matter is not free from doubt, we intend to treat a cashless exercise as a tax-free transaction in which a holder's tax basis in the common stock received equals the sum of the U.S. holder's tax basis in the Surrendered Warrants and the Exercised Warrants. It is also possible, however, that a cashless exercise could be treated as a taxable transaction, and a U.S. Holder could recognize taxable gain or loss in an amount equal to the difference between the exercise price deemed paid and such U.S. holder's tax basis in the Surrendered Warrants. In this case, a U.S. Holder's tax basis in the common stock received would equal the sum of the exercise price deemed paid and the U.S. Holder's tax basis in the warrants exercised.

The holding period for common stock acquired in a cashless exercise will depend on the U.S. federal income tax treatment of a cashless exercise. The holding period for a share of common stock acquired in a cashless exercise would include the holding period of the Surrendered Warrants and Exercised Warrants if the cashless exercise is treated as a tax-free transaction. The holding period for a share of common stock acquired in a cashless exercise would begin on the day following the date of exercise if the cashless exercise is treated as a taxable exchange or treated similarly to a cash exercise (even if otherwise a tax-free transaction). Due to the absence of authority on the U.S. federal income tax treatment of a cashless exercise, there can be no assurance which, if any, of the alternative tax consequences and holding periods described above would be adopted by the IRS or a court of law.

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Accordingly, holders are urged to consult their tax advisors as to the tax consequences of a cashless exercise.

Lapse of Warrants

If a warrant is allowed to lapse unexercised, a U.S. holder will recognize a capital loss in an amount equal to its tax basis in the warrant. Such loss will be long-term capital loss if the warrant has been held for more than one year as of the date the warrant lapsed. The deductibility of capital losses is subject to limitations.

Certain Adjustments to Warrants

Under Section 305 of the Code, an adjustment to the number of shares of common stock that will be issued on the exercise of the warrants, or an adjustment to the exercise price of the warrants, may be treated as a constructive distribution to a U.S. holder of the warrants if, and to the extent that, such adjustment has the effect of increasing such U.S. holder's proportionate interest in our "earnings and profits" or assets, depending on the circumstances of such adjustment (for example, if such adjustment is to compensate for a distribution of cash or other property to our shareholders). In this regard, adjustments to the exercise price of a warrant made pursuant to a bona fide reasonable adjustment formula that has the effect of preventing dilution of the interest of the holders of the warrants should generally not result in a constructive distribution. Any deemed distribution would be taxable as a dividend, return of capital, or capital gain in accordance with the earnings and profits rules under the Code. It is not clear whether a constructive dividend deemed paid would be eligible for the preferential rates of U.S. federal income tax applicable to certain dividends paid to non-corporate beneficial owners. It is also not clear whether corporate beneficial owners would be entitled to claim the DRD with respect to any such constructive dividends.

Information Reporting and Backup Withholding

Information reporting requirements generally will apply to payments of dividends on shares of common stock and may apply to the proceeds of a sale of common stock, in each case unless a U.S. holder is an exempt recipient, such as a corporation. Backup withholding will apply to those payments if a U.S. holder fails to provide its correct taxpayer identification number and certification of exempt status. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

THE PRECEDING DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK OR WARRANTS, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

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UNDERWRITING

Pursuant to the underwriting agreement with Craig-Hallum Capital Group LLC, as representative of the underwriters named below, we have agreed to issue and sell, and the underwriters have severally and not jointly agreed to purchase, as principals, subject to compliance with all necessary legal requirements and the terms and conditions contained in the underwriting agreement, a total of fixed combinations, each consisting of a share and a warrant to purchase four tenths of one share, at the public offering price of $ per fixed combination, less the underwriting discounts and commissions, on the closing date. The public offering price shown on the cover of this prospectus was determined by negotiation between us and the representative and based on market conditions. The offering price stated on the cover page of this prospectus should not be considered an indication of the actual value of the securities sold in this offering. That price is subject to change as a result of market conditions and other factors and we cannot assure you that the securities sold in this offering can be resold at or above the public offering price. A copy of the underwriting agreement will be filed as an exhibit to the registration statement of which this prospectus is a part. The shares of common stock and warrants we are offering are being offered by the underwriters pursuant to the underwriting agreement, subject to certain conditions specified in the underwriting agreement. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of fixed combinations listed next to its name in the following table:

	Number of Fixed Combinations
Craig-Hallum Capital Group LLC	
H.C. Wainwright & Co., LLC	
Total	

The underwriters propose to offer the fixed combinations initially at the public offering price. After a reasonable effort has been made to sell all of the combinations at the public offering price, the underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the combinations remaining unsold. Any such reduction will not affect the proceeds received by us. Any securities sold by the underwriters to securities dealers will be sold at the public offering price less a selling concession not in excess of $ per fixed combination.

The obligations of the underwriters under the underwriting agreement are several, and not joint, and may be terminated at their discretion at any time prior to any closing date upon the occurrence of certain events specified in the underwriting agreement, including standard "material adverse effect out" and "market out" rights of termination. In the event the underwriting agreement is terminated pursuant to its terms, we shall be obligated to pay the underwriters their actual and accountable out of pocket expenses related to the transactions contemplated therein then due and payable, including the fees and disbursements of underwriters' legal counsel, provided, however, that such expense cap in no way limits or impairs the indemnification and contribution provisions of the underwriting agreement.

Underwriting Discounts, Commissions and Expenses

We have agreed to pay underwriting discounts and commissions equal to 6.35% of the aggregate gross proceeds raised in this offering.

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The following table summarizes the underwriting discounts and commission to be paid to the underwriters by us.

	Per Fixed Combination of Share and Warrant	Total	Total with Full Option Exercise
Public offering price	$	$	$
Underwriting discounts and commissions(1)	$	$	$
Proceeds, before expenses, to us	$	$	$

(1) The underwriters will receive a reduced underwriting discount in respect to shares and warrants sold to certain existing stockholders and certain investors identified by us, if such stockholders or investors participate in this offering.

The underwriters are obligated to take up and pay for all the combinations offered by this prospectus if any are purchased under the underwriting agreement, subject to certain exceptions.

We estimate the total expenses payable by us for this offering to be approximately $ which amount includes (i) the underwriting discounts and commissions of $ ($ if the underwriters' over-allotment option is exercised in full), (ii) reimbursement of the expenses of the representative up to $100,000, including the legal fees of the representative being paid by us and (iii) other estimated company expenses of approximately $, which includes legal, accounting, printing costs and various fees associated with the registration and listing of our shares.

As a condition precedent to the underwriters' obligation to close the offering, subject to customary exemptions permitting dispositions to trusts for the direct or indirect benefit of the director or officer and/or the immediate family of such person and pursuant to any existing 10b5-1 plans, all directors and officers of the Company shall be required to execute and deliver written undertakings in favor of the underwriters agreeing not to sell, transfer, pledge (other than as disclosed to the underwriters in writing), assign, or otherwise dispose of any of our securities owned, directly or indirectly by such directors or officers, until 90 days following the closing date, without the prior written consent of the representative.

Over-allotment Option

We have granted to the representative an option exercisable not later than 30 days after the date of this prospectus to purchase up to a number of additional shares of common stock and/or warrants equal to 15% of the number of shares of common stock sold in the primary offering at the public offering price per share of common stock sold in the primary offering (excluding any shares of common stock underlying the warrants issued in this offering and any shares of common stock issued upon any exercise of the underwriters' over-allotment option) and/or 15% of the warrants sold in the primary offering at the public offering price per share of common stock and the public offering price per warrant set forth on the cover page hereto less the underwriting discounts and commissions. The representative may exercise the option to cover over-allotments, if any, made in connection with this offering. If any additional shares of common stock and/or warrants are purchased, the representative will offer these shares of common stock and/or warrants on the same terms as those on which the other securities are being offered.

Lock-up Agreements

Our executive officers and directors have agreed with the underwriters to be subject to a lock-up period of 90 days following the date of this prospectus. This means that, during the applicable lock-up period, such persons may not offer for sale, contract to sell, sell, distribute, grant any option, right or

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warrant to purchase, pledge, hypothecate or otherwise dispose of, directly or indirectly, any shares of our common stock or any securities convertible into, or exercisable or exchangeable for, shares of our common stock. Certain limited transfers are permitted during the lock-up period if the transferee agrees to these lock-up restrictions. Subject to certain exceptions, we have also agreed in the underwriting agreement that from the date of the underwriting agreement until 90 days thereafter, neither the Company nor any subsidiary of the Company shall issue, enter into any agreement to issue or announce the issuance or proposed issuance of any shares of common stock or common stock equivalents.

Stabilization, Short Positions and Penalty Bids

The underwriters may engage in syndicate covering transactions, stabilizing transactions and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of our securities:

Syndicate covering transactions involve purchases of securities in the open market after the distribution has been completed in order to cover syndicate short positions. Such a naked short position would be closed out by buying securities in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the securities in the open market after pricing that could adversely affect investors who purchase in the offering.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specific maximum.

Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the securities originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These syndicate covering transactions, stabilizing transactions and penalty bids may have the effect of raising or maintaining the market prices of our securities or preventing or retarding a decline in the market prices of our securities. As a result, the price of our securities may be higher than the price that might otherwise exist in the open market. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our securities. These transactions may be effected on the NYSE American, in the over-the-counter market or on any other trading market and, if commenced, may be discontinued at any time.

In connection with this offering, the underwriters also may engage in passive market making transactions in our securities in accordance with Regulation M during a period before the commencement of offers or sales of shares of our securities in this offering and extending through the completion of the distribution. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for that security. However, if all independent bids are lowered below the passive market maker's bid that bid must then be lowered when specific purchase limits are exceeded. Passive market making may stabilize the market price of the securities at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the prices of our securities. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that any transactions, once commenced will not be discontinued without notice.

Indemnification

We have agreed, pursuant to the underwriting agreement, to indemnify the underwriters, and each dealer selected by each underwriter that participated in the offering (each, a "Selected Dealer") and each of their respective directors, officers and employees and each person, if any who controls such

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underwriter or any Selected Dealer against certain liabilities, including liabilities under U.S. securities laws in certain circumstances or to contribute to payments the underwriters may have to make because of such liabilities.

Other Relationships

Upon completion of this offering, we have granted the representative a right of first refusal to act as lead bookrunner, placement agent or manager in connection with any subsequent public or private offering of equity securities, debt financing or refinancing, or other capital markets financing by us. This right of first refusal extends until March 31, 2018. The terms of any such engagement of the representative will be determined by separate agreement.

Our common stock is listed on the NYSE American under the symbol "EMAN."

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. Other than the prospectus in electronic format, the information on the websites of any such underwriter or selling group member is not part of this prospectus. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

Selling Restrictions

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), an offer to the public of any securities which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

to any legal entity which is a qualified investor, as defined in the Prospectus Directive;

to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the underwriters or the underwriters nominated by us for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of securities shall require us or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of securities to the public" in relation to the securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe to the securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the

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Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and/or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order and other persons to whom it may lawfully be communicated (each such person being referred to as a "relevant person").

This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Australia

This prospectus is not a disclosure document for the purposes of Australia's Corporations Act 2001 (Cth) of Australia, or Corporations Act, has not been lodged with the Australian Securities & Investments Commission and is only directed to the categories of exempt persons set out below. Accordingly, if you receive this prospectus in Australia:

You confirm and warrant that you are either:

- a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act;
- a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate to the Company which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
- a person associated with the Company under Section 708(12) of the Corporations Act; or
- a "professional investor" within the meaning of section 708(11)(a) or (b) of the Corporations Act.

To the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this prospectus is void and incapable of acceptance.

You warrant and agree that you will not offer any of the securities issued to you pursuant to this prospectus for resale in Australia within 12 months of those securities being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

Hong Kong

No securities have been offered or sold, and no securities may be offered or sold, in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent; or to professional investors, as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("SFO") and any rules made under that Ordinance; or in other circumstances which do not result in the document being a prospectus, as defined in the Companies Ordinance (Cap. 32) of Hong Kong ("CO") or which do not constitute an offer or invitation to the public for the purpose of the CO or the SFO. No document, invitation or

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advertisement relating to the securities has been issued or may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors, as defined in the SFO and any rules made under that Ordinance.

This prospectus has not been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may not be issued, circulated or distributed in Hong Kong, and the securities may not be offered for subscription to members of the public in Hong Kong. Each person acquiring the securities will be required, and is deemed by the acquisition of the securities, to confirm that he is aware of the restriction on offers of the securities described in this prospectus and the relevant offering documents and that he is not acquiring, and has not been offered any securities in circumstances that contravene any such restrictions.

Japan

The offering has not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948 of Japan, as amended), or FIEL, and the initial purchaser will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This prospectus has not been and will not be lodged or registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months

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after that corporation or that trust has acquired the securities pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law;
- as specified in Section 276(7) of the SFA; or
- as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Switzerland

The securities may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a of the CO or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this prospectus nor any other offering or marketing relating to the securities or this offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to this offering, the Company or the securities has been or will be filed with or approved by any Swiss regulatory authority.

Canada

The securities may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

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LEGAL MATTERS

The validity of the securities offered hereby has been passed upon for us by Goodwin Procter LLP, Boston, Massachusetts. Ellenoff Grossman & Schole LLP is representing the underwriters in connection with this offering.

EXPERTS

The consolidated financial statements of eMagin Corporation as of December 31, 2016 and 2015 and for each of the years in the two-year period ended December 31, 2016 have been audited by RSM US LLP, an independent registered public accounting firm, as stated in their report thereon and included in this prospectus and registration statement in reliance upon such report and upon the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We post on our public website (www.emagin.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website and the information contained on that site, or connected to that site, are not incorporated into and are not a part of this prospectus.

You can find, copy and inspect information we file with the SEC at the SEC's public reference room, which is located at 100 F Street, N.E. Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the SEC's public reference room. You can also review our electronically filed reports and other information that we file with the SEC on the SEC's website at http://www.sec.gov.

This prospectus is part of a registration statement that we filed with the SEC. The registration statement contained more information than this prospectus regarding us and the securities, including exhibits and schedules. You can obtain a copy of the registration statement from the SEC at any address listed above or from the SEC's website. You should review the information and exhibits in the registration statement for further information on us and our consolidated subsidiary and the securities we are offering. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

Andrew G. Sculley, Chief Executive Officer
eMagin Corporation
2070 Route 52
Hopewell Junction, NY 12533
(845) 838-7900

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
eMagin Corporation

We have audited the accompanying consolidated balance sheets of eMagin Corporation and Subsidiary (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of eMagin Corporation and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP
Seattle, Washington
March 28, 2017

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eMAGIN CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,241	$ 9,273
Accounts receivable, net	2,834	3,508
Unbilled accounts receivable	1,401	1,445
Inventories	7,435	3,901
Prepaid expenses and other current assets	1,040	489
Total current assets	17,951	18,616
Equipment, furniture and leasehold improvements, net	8,980	9,131
Intangibles and other assets	282	336
Total assets	$ 27,213	$ 28,083
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,432	$ 1,636
Accrued compensation	1,528	1,246
Revolving credit facility, net	1,689	
Other accrued expenses	1,513	1,193
Other current liabilities	591	602
Total current liabilities	6,753	4,677
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, $.001 par value: authorized 10,000,000 shares:		
Series B Convertible Preferred stock, (liquidation preference of $5,659,000) stated value $1,000 per share, $.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of December 31, 2016 and 2015		
Common stock, $.001 par value: authorized 200,000,000 shares, issued 31,788,582 shares as of December 31, 2016 and 29,550,170 shares as of December 31, 2015	32	30
Additional paid-in capital	239,915	234,814
Accumulated deficit	(218,987)	(210,938)
Treasury stock, 162,066 shares as of December 31, 2016 and 2015	(500)	(500)
Total shareholders' equity	20,460	23,406
Total liabilities and shareholders' equity	$ 27,213	$ 28,083

See notes to Consolidated Financial Statements.

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eMAGIN CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	Year Ended December 31,	
	2016	**2015**
Revenues:		
Product	$ 17,265	$ 20,912
Contract	3,132	4,230
License	1,000	
Total revenues, net	21,397	25,142
Cost of revenues:		
Product	12,988	15,466
Contract	1,967	2,698
License		
Total cost of revenues	14,955	18,164
Gross profit	6,442	6,978
Operating expenses:		
Research and development	6,362	4,353
Selling, general and administrative	8,411	6,687
Total operating expenses	14,773	11,040
Loss from operations	(8,331)	(4,062)
Other income (expense):		
Interest expense, net	(30)	(43)
Other income, net	313	
Total other income (expense), net	283	(43)
Loss before provision for income taxes	(8,048)	(4,105)
Provision for income taxes	(1)	
Net Loss	$ (8,049)	$ (4,105)
Loss per share, basic	$ (0.27)	$ (0.16)
Loss per share, diluted	$ (0.27)	$ (0.16)

Weighted average number of shares outstanding:		
Basic	30,172,927	25,296,040
Diluted	30,172,927	25,296,040

See notes to Consolidated Financial Statements.

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eMAGIN CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except share data)

	Preferred Shares	Preferred Stock	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2014	**5,659**	**$**	**25,195,107**	**$ 25**	**$ 228,380**	**$ (206,833)**	**$ (500)**	**$ 21,072**
Exercise of common stock options			254,351	1	266			267
Stock based compensation					606			606
Common stock issued for cash, net of issuance costs			4,100,712	4	5,562			5,566
Net loss						(4,105)		(4,105)
Balance, December 31, 2015	**5,659**		**29,550,170**	**30**	**234,814**	**(210,938)**	**(500)**	**23,406**
Exercise of common stock options			21,912		45			45
Exercise of Warrants			2,216,500	2	4,285			4,287
Stock based compensation					771			771
Net loss						(8,049)		(8,049)
Balance, December 31, 2016	**5,659**	**$**	**31,788,582**	**$ 32**	**$ 239,915**	**$ (218,987)**	**$ (500)**	**$ 20,460**

See notes to Consolidated Financial Statements.

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eMAGIN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (8,049)	$ (4,105)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,641	1,530
Reduction in provision for doubtful accounts		(543)
Increase (reduction) in inventory reserve	(49)	1,253
Stock-based compensation	771	606
Loss on sale of asset	1	12
Changes in operating assets and liabilities:		
Accounts receivable	674	(87)
Unbilled accounts receivable	44	(279)
Inventories	(3,485)	(567)
Prepaid expenses and other current assets	(551)	155
Accounts payable, accrued expenses, and other current liabilities	387	764
Net cash used in operating activities	(8,616)	(1,261)
Cash flows from investing activities:		
Purchase of equipment	(1,437)	(1,189)
Maturities of investments		750
Net cash used in investing activities	(1,437)	(439)
Cash flows from financing activities:		
Proceeds from warrant exercise, net	4,287	
Proceeds from sale of common stock		5,566
Borrowings under revolving line of credit, net	1,689	
Payments made in financing of intangibles		(150)
Proceeds from exercise of stock options	45	267
Net cash provided by financing activities	6,021	5,683
Net increase (decrease) in cash and cash equivalents	(4,032)	3,983
Cash and cash equivalents, beginning of period	9,273	5,290
Cash and cash equivalents, end of period	$ 5,241	$ 9,273
Cash paid for interest	$ 29	$ 13
Cash paid for income taxes	$ 1	$

See notes to Consolidated Financial Statements.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature Of Business

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

Note 2 Significant Accounting Policies

Basis of presentation

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

Use of estimates

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

Revenue and cost recognition

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 also earns revenues from certain research and development ("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). Progress is generally based on a cost-to-cost approach; however, an alternative method may be used such as physical progress, labor hours or others depending on the type of contract. Physical progress is determined as a combination of input and output measures as deemed appropriate by the circumstances. Contract costs include all direct material 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.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Significant Accounting Policies (Continued)

Product warranty

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

The following table provides a summary of the activity related to the Company's warranty liability, included in other current liabilities, during the years ended December 31, 2016 and 2015 (in thousands):

	Year Ended December 31,	
	2016	2015
Beginning balance	$ 599	$ 663
Warranty accruals	375	455
Warranty claims	(390)	(519)
Ending balance	$ 584	$ 599

Research and development expenses

Research and development costs are expensed as incurred.

Cash and cash equivalents

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

Accounts receivable

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

Unbilled accounts receivable

Unbilled receivables principally represent revenues recorded under the percentage-of-completion method of accounting that have not been billed to customers in accordance with the contractual terms of the arrangement. We anticipate that the majority of the balance at December 31, 2016 will be collected during the 2017 fiscal year. As of December 31, 2016 and 2015, unbilled accounts receivable was $1.4 million and $1.4 million, respectively.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Significant Accounting Policies (Continued)

Allowance for doubtful accounts

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

Inventories

Inventories are stated 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.

Equipment, furniture and leasehold improvements

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

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

Intangible assets

Included in the Company's intangible assets are patents that are recorded at purchase price as of the date acquired and amortized over the expected useful life which is generally the remaining life of the patent. In 2014, the Company purchased several patents for $290 thousand which are being amortized over their remaining useful life. As of December 31, 2016 and 2015, intangible assets were $355 thousand less accumulated amortization of $166 thousand and $112 thousand, respectively. As of December 31, 2016, the weighted average remaining useful life of the patents was approximately 5.3 years.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Significant Accounting Policies (Continued)

Total intangible amortization expense was approximately $54 thousand and $58 thousand for each of the years ended December 31, 2016 and 2015, respectively. Estimated future amortization expense as of December 31, 2016 is as follows (in thousands):

Fiscal Years ending December 31,	Total Amortization
2017	$ 54
2018	54
2019	32
2020	9
2021	8
Later years	32
	$ 189

Advertising

Costs related to advertising and promotion of products are charged to sales and marketing expense as incurred. There was no advertising expense for the years ended December 31, 2016 and 2015.

Shipping and handling fees

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

Income taxes

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

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

Income (loss) per common share

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

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Significant Accounting Policies (Continued)

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. The participating convertible preferred stock is not required to absorb any net loss. The Company uses the more dilutive method of calculating the diluted earnings per share, either the two class method or "if-converted" method. Under the "if-converted" method, the convertible preferred stock is assumed to have been converted into common shares at the beginning of the period.

For the years ended December 31, 2016 and 2015, the Company reported a net loss and as a result, basic and diluted loss per common share are the same. Therefore, in calculating net loss per share amounts, shares underlying the potentially dilutive common stock equivalents were excluded from the calculation of diluted net income per common share because their effect was anti-dilutive.

The following is a table of the potentially dilutive common stock equivalents for the years ended December 31, 2016 and 2015 that were not included in diluted EPS as their effect would be anti-dilutive:

	For the Year Ended December 31,	
	2016	**2015**
Options	5,055,741	4,218,139
Warrants	3,331,449	2,600,000
Convertible preferred stock	7,545,333	7,545,333
Total potentially dilutive common stock equivalents	15,932,523	14,363,472

Comprehensive income (loss)

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

The Company's operations did not give rise to any material items includable in comprehensive income (loss), which were not already in net income (loss) for the years ended December 31, 2016 and 2015. Accordingly, the Company's comprehensive income (loss) is the same as its net income (loss) for the periods presented.

Stock-based compensation

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

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Significant Accounting Policies (Continued)

Concentration of credit risk

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

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and short-term investments. The Company's cash and cash equivalents are deposited with financial institutions which, at times, may exceed federally insured limits. The Company invests surplus cash in a government money market fund that consists of U.S Government obligations and repurchase agreements collateralized by U.S. Government Obligations, which is not insured. To date, the Company has not experienced any loss associated with this risk.

Evaluation of Ability to Maintain Current Level of Operations

In connection with preparing the consolidated financial statements for the year ended December 31, 2016, management evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about the Company's ability to continue as a going concern and meet its obligations as they became due for the next twelve months from the date of issuance of its 2016 financial statements. Management assessed that there were such conditions and events, including a history of recurring operating losses and negative cash flows from operating activities. The Company incurred a net loss of $8.0 million and used cash in operating activities of $8.6 million for 2016. In addition, at December 31, 2016, the Company had cash and cash equivalents of $5.2 million, outstanding borrowings under its ABL debt facility of $1.9 million, gross of debt issuance costs, and borrowing availability under the facility of $2.0 million.

Management evaluated the significance of these conditions in relation to the Company's ability to meet its obligations as they become due. The Company's ability to continue current operations and to execute on management's plans is dependent on its ability to generate sufficient cash flows from operations. The Company expects that it may need additional capital to fund its operations in the next twelve months from the date of issuance of its 2016 financial statements. In March 2017, the Company entered into an unsecured debt financing arrangement with Stillwater Trust LLC, a significant investor in the Company (see Note 14). Under the financing agreement, the Company may borrow through June 30, 2018, up to $2 million for general working capital purposes and up to an additional $3 million should the Company's existing lender not provide borrowing availability under its normal terms and conditions through its ABL debt facility. Management's plans also include the ability to reduce certain discretionary expenses and delay capital expenditures if necessary to provide additional sources of capital.

Management believes that its plan of obtaining this additional source of capital under the Stillwater Trust LLC agreement, and its ability to take actions to reduce certain discretionary expenses and delay capital expenditures if necessary to provide additional sources of capital, alleviates the substantial doubt about the Company's ability to continue as a going concern. Based on the Company's current operating plan, management anticipates that, given current working capital levels, current financial projections, and the ability to borrow under its ABL debt facility and its credit facility with its largest investor, the Company will be able to meet its financial obligations as they become due over the

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Significant Accounting Policies (Continued)

next twelve months from the date of issuance of its 2016 financial statements and to continue as a going concern over the same period.

Recently issued accounting standards

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

In February 2016, the FASB issued guidance which changes the accounting for leases. The guidance requires lessees to recognize a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term and, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis for all leases (with the exception of short-term leases). Under the new guidance, leases previously defined as operating leases will be presented on the balance sheet. As a result, these leases will be recorded as an asset and a corresponding liability at the present value of the total lease payments. The asset will be decremented over the life of the lease on a pro-rata basis resulting in lease expense while the liability will be decremented using the interest method (ie. principal and interest). As such, the Company expects the new guidance will materially impact the asset and liability balances of the Company's financial statements and related disclosures at the time of adoption. Since the new guidance is effective January 1, 2019, there will be no immediate impact on the Company's financial statements.

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

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

In April 2015, the FASB issued guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a services contract. All software licenses recognized under this guidance will be accounted for consistent with other licenses of intangible assets. The guidance was effective January 1, 2016 and the Company adopted it on a prospective basis. The guidance did not have a material impact on the Company's financial statements.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Significant Accounting Policies (Continued)

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

In November 2014, the FASB issued guidance to eliminate the diversity in practice for the accounting for hybrid financial instruments issued in the form of a share. The guidance requires management to consider all terms and features, whether stated or implied, of a hybrid instrument when determining whether the nature of the instrument is more akin to a debt instrument or an equity instrument. Embedded derivative features, which are accounted for separately from host contracts, should also be considered in the analysis of the hybrid instrument. The Company adopted the guidance effective January 1, 2016 and it did not have an impact on its financial statements.

In August 2014, the FASB issued guidance which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement was effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The Company has provided an assessment and related disclosures in Note 2 to the Consolidated Financial Statements.

In May 2014, the FASB issued guidance on the recognition of revenue from contracts with customers, which will require an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles (GAAP) when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. In July 2015, the FASB voted to defer the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods) and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. The Company expects the updated standard to become effective for it in the first quarter of fiscal 2018. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

Note 3 Accounts Receivable, net

Accounts receivable consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Accounts receivable	$ 2,961	$ 3,635
Less allowance for doubtful accounts	(127)	(127)
Accounts receivable, net	$ 2,834	$ 3,508

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Inventories, net

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

	December 31 2016	December 31, 2015
Raw materials	$ 3,619	$ 2,595
Work in process	1,576	1,369
Finished goods	3,740	1,486
Total inventories	8,935	5,450
Less inventory reserve	(1,500)	(1,549)
Total inventories, net	$ 7,435	$ 3,901

Note 5 Prepaid Expenses and Other Current Assets

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

	December 31,	
	2016	2015
Vendor prepayments	$ 601	$ 51
Other prepaid expenses	439	438
Total prepaid expenses and other current assets	$ 1,040	$ 489

Note 6 Equipment, Furniture and Leasehold Improvements

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

	December 31,	
	2016	2015
Computer hardware and software	$ 1,471	$ 1,440
Lab and factory equipment	16,369	15,868
Furniture, fixtures and office equipment	344	344
Assets under capital leases	66	66
Construction in progress	1,180	277
Leasehold improvements	473	473
Total equipment, furniture and leasehold improvements	19,903	18,468
Less: accumulated depreciation	(10,923)	(9,337)
Equipment, furniture and leasehold improvements, net	$ 8,980	$ 9,131

Depreciation expense was $1.6 million and $1.5 million for the years ended December 31, 2016 and 2015, respectively. Assets under capital leases are fully amortized.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Debt

	December 31 2016	December 31, 2015
Revolving credit facility	$ 1,852	$
Less unamortized debt issuance costs	(163)	
Revolving credit facility, net	$ 1,689	$

On December 21, 2016, the Company entered into a revolving credit facility with a lender that provides for up to a maximum amount of $5 million based on a borrowing base equivalent of 85% of eligible accounts receivable plus the lesser of $2 million or 50% of eligible inventory, (the "ABL facility"). The interest on the ABL facility is equal to the Prime Rate plus 3% but may not be less than 6.5% with a minimum monthly interest payment of $2 thousand. The Company shall pay the lender a monthly administrative fee of $1 thousand and an annual facility fee equal to 1% of the maximum amount borrowable under the facility. The ABL facility will automatically renew on December 31, 2019 for a one-year term unless written notice to terminate the agreement is provided by either party. In conjunction with entering into the financing, the Company incurred $163 thousand of debt issuance costs including lender and legal costs that will be amortized over the life of the ABL facility. In accordance with recently issued accounting guidance, the revolving credit facility balance is presented net of these unamortized debt issuance costs on the accompanying Consolidated Balance Sheet.

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

The ABL facility contains customary representations and warranties, affirmative and negative covenants and events of default. The Company is required to maintain a minimum tangible net worth of $13 million and a minimum working capital balance of $4 million at all times. As of December 31, 2016, we had unused borrowing availability of $2.0 million and were in compliance with all debt covenants.

Our former credit facility with a lender expired on August 31, 2016 and was not renewed. The facility provided for up to a maximum of $3 million in borrowings based on 75% of eligible accounts receivable, as defined in the agreement. The interest on the credit facility was equal to the prime rate plus 4% but could not be less than 7.25% with a minimum monthly interest payment of $1 thousand. The credit facility contained customary representations and warranties as well as affirmative and negative covenants. We were in compliance with all debt covenants. We did not draw on the credit facility at any time since its inception in September 2010 and there was no outstanding balance at the expiration date.

For the years ended December 31, 2016 and 2015, interest expense includes interest paid, capitalized or accrued of approximately $30 thousand and $43 thousand, respectively, on outstanding debt.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Income Taxes

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

	For the Years Ended December 31,	
	2016	2015
Domestic, current	$ (8,048)	$ (4,105)
Total	$ (8,048)	$ (4,105)

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

	For the Years Ended December 31,	
	2016	2015
Deferred tax assets:		
Federal and state net operating loss carryforwards	$ 43,083	$ 38,943
Research and development tax credit carryforwards	2,196	2,279
Stock based compensation	4,438	4,057
Other provision and expenses not currently deductible	1,335	1,297
Total deferred tax assets	51,052	46,576
Deferred tax liabilities:		
Depreciation and amortization	(1,141)	(965)
Prepaid expenses	(95)	(116)
Total deferred liabilities	(1,236)	(1,081)
Less valuation allowance	(49,816)	(45,495)
Net deferred tax asset	$	$

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

As of December 31, 2016, the Company's deferred tax assets were generated primarily from the federal and state net operating loss, stock based compensation and research and development tax credits. In assessing the realizability of deferred tax assets, management determined that it is more likely than not that none of the deferred tax assets will be realized. Therefore, the Company has provided a full valuation allowance against the deferred tax assets at December 31, 2016 and 2015.

As of December 31, 2016 and 2015, the Company had net deferred tax assets before its valuation allowance of approximately $50 million and $45 million, respectively.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Income Taxes (Continued)

During the year ended December 31, 2016, the Company did not utilize its prior years' net operating loss carryforwards. As of December 31, 2016, eMagin has federal and state net operating loss carryforwards of approximately $125.7 million and $7.6 million, respectively. The federal research and development tax credit carryforwards are approximately $2.2 million. The federal net operating losses and tax credit carryforwards will expire as follows:

	Net Operating Losses	Research and Development Tax Credits
	(in thousands)	
2018 - 2021	$ 44,639	$ 809
2022 - 2025	42,814	
2026 - 2036	38,294	1,387
	$ 125,747	$ 2,196

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

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

	For the Years Ended December 31,	
	2016	2015
U.S. Federal income tax benefit at federal statutory rate	34%	34%
Change in valuation allowance	(37)	(36)
Credits	3	2
Effective tax rate	%	%

The Company did not have unrecognized tax benefits at December 31, 2016 and 2015. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2016 and 2015, the Company recognized no interest and penalties.

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

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Shareholders' Equity

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

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

As of December 31, 2016 and 2015, there were 5,659 shares of Preferred Stock Series B issued and outstanding.

Common Stock

On December 17, 2015, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") pursuant to which the Company sold and issued 3,999,996 shares of the Company's common stock, par value of $0.001 per share, at a price of $1.50 per share. The net proceeds received after expenses were $5.5 million. In connection with the sale of the shares, the Company isssued warrants to purchase an additional 2,600,000 shares of common stock exercisable at a price of $2.05 per share beginning June 23, 2016 and expiring on June 23, 2021.

On September 3, 2015, the Company entered into an at the Market Offering Agreement (the "agreement") with an investment bank as sales agent, pursuant to which the Company was to offer and sell shares of its common stock having an aggregate offering price of up to $4,500,000. The agreement was terminated effective December 17, 2015. As of December 17, 2015, the Company sold 100,716 shares at sales prices ranging from $2.25 to $2.49 per share, resulting in $90 thousand in net proceeds.

The Company received approximately $45 thousand and $267 thousand from the exercise of 21,912 and 254,351 stock options during the years ended December 31, 2016 and 2015, respectively.

In August 2011, our Board of Directors approved a stock repurchase plan authorizing us to repurchase our common stock not to exceed $2.5 million in total value. No shares were repurchased subsequent September 2012. As of December 31, 2016, authorization to repurchase $2.0 million in value of our common stock remained under this plan.

Warrant Transactions

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

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Shareholders' Equity (Continued)

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

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

The issuance of the New Warrants was exempt from federal and state registration requirements. During 2016, the Company filed a resale registration statement to register the shares of our common stock issuable upon the exercise of the New Warrants.

At December 31, 2016, there were New Warrants outstanding to purchase 2,947,949 shares of our common stock at an exercise price of $2.60 per share, which expire in February 2022. In addition, warrants to purchase 383,500 shares remaining from the December 2015 issuance were outstanding at December 31, 2016 at an exercise price of $2.05 per share, which expire in June 2021.

Note 10 Stock Compensation

Employee stock purchase plan

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

Incentive compensation plans

The Amended and Restated 2003 Employee Stock Option Plan (the "2003 Plan") provided for grants of shares of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. The 2003 Plan terminated July 2, 2013. No additional options can be granted from the plan though options granted before the 2003 Plan terminated may be exercised until the grant expires.

The 2008 Incentive Stock Plan (the "2008 Plan") adopted and approved by the Board of Directors on November 5, 2008 provides for grants 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 million shares. In 2016, there were 221,024 options granted from the 2008 Plan.

The 2011 Incentive Stock Plan (the "2011 Plan") was approved by the Company's shareholders on November 3, 2011. The 2011 Plan provides for grants of common stock and options to purchase common stock to employees, officers, directors and consultants. The Board of Directors reserved 1.4 million shares of common stock for issuance under the 2011 Plan. On June 7, 2012, at the Company's Annual Meeting, the shareholders approved an Amended and Restated 2011 Incentive Stock Plan which eliminated the evergreen provision and prohibits the repricing or exchange of stock options without shareholder approval. In 2016, there were 458,000 options granted from the 2011 Plan.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Stock Compensation (Continued)

The 2013 Incentive Stock Plan (the "2013 Plan") adopted and approved by the shareholders on May 17, 2013 provides for grants of common stock and options to purchase shares of common stock to employees, officers, directors and consultants. The 2013 Plan has an aggregate of 1.5 million shares. In 2016, there were 631,073 options granted from this plan.

During the fourth quarter of 2016, the Company granted options to purchase 125,000 shares of common stock to employees, that are subject to approval of a 2017 plan by the shareholders at the next annual meeting.

Vesting terms of the options range from immediate vesting to a ratable vesting period of 5 years. Option activity for the year ended December 31, 2016 and 2015 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	4,218,139	$ 3.75		
Options granted	1,435,097	2.45		
Options exercised	(21,912)	2.10		
Options forfeited	(52,781)	2.02		
Options cancelled or expired	(522,802)	7.44		
Outstanding at December 31, 2016	5,055,741	$ 3.00	4.46	$ 875,225
Vested or expected to vest at December 31, 2016(1)	5,035,622	$ 3.00	4.46	$ 875,030
Exercisable at December 31, 2016	4,049,888	$ 3.08	4.01	$ 865,475

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

At December 31, 2016, there were 108,428 shares available for grant under the 2013, 2011, and 2008 Plans.

The aggregate intrinsic value in the table above represents the difference between the exercise price of the underlying options and the quoted price of the Company's common stock on December 31, 2016 for the options that were in-the-money. As of December 31, 2016 there were 1,824,351 options that were in-the-money. The Company's closing stock price was $2.15 as of December 31, 2016. The Company issues new shares of common stock upon exercise of stock options. The intrinsic value of the 2016 options exercised was $7 thousand.

Stock-based compensation

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

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Stock Compensation (Continued)

The following table summarizes the allocation of non-cash stock-based compensation to the Company's expense categories for the years ended December 31, 2016 and 2015 (in thousands):

	For the Year Ended December 31,	
	2016	2015
Cost of revenues	$ 25	$ 51
Research and development	164	118
Selling, general and administrative	582	437
Total stock compensation expense	$ 771	$ 606

At December 31, 2016, total unrecognized compensation costs related to stock options was approximately $1.0 million, net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures and is expected to be recognized over a weighted average period of approximately 3.1 years.

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

	For the Year Ended December 31,	
	2016	2015
Dividend yield	0%	0%
Risk free interest rates	0.71 - 1.41%	0.84 - 1.56%
Expected volatility	49.1 to 59.4%	51.2 to 63.9%
Expected term (in years)	3.5 to 5.0	3.5 to 5.0

The weighted average fair value per share for options granted in 2016 and 2015 was $1.00 and $1.17, respectively.

There were no dividends declared or paid in 2016 or 2015. Though the Company paid a special one-time dividend in 2012, the Company does not expect to pay dividends in the near future; therefore, it used an expected dividend yield of 0%. The risk-free interest rate used in the Black-Scholes option pricing model is based on the implied yield at the time of grant available on U.S. Treasury securities with an equivalent term. Expected volatility is based on the weighted average historical volatility of the Company's common stock for the equivalent term. The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on historical experience and vesting schedules of similar awards.

Note 11 Commitments and Contingencies

Operating Leases

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

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Commitments and Contingencies (Continued)

The Company's corporate headquarters and manufacturing facilities are located in Hopewell Junction, New York. The Company leases approximately 37,000 square feet to house its equipment for OLED microdisplay fabrication, for research and development, and for administrative offices. The lease expires in May 2024. The Company leases approximately 2,000 square feet of office space for design and product development in Santa Clara, California and the lease expires in October 2017. In Bellevue, Washington, eMagin leases approximately 1,800 square feet of office space for administrative offices and the lease expires in October 2017.

Rent expense was approximately $1.0 million and $0.9 million for the years ended December 31, 2016 and 2015, respectively. The future minimum lease payments for the years 2017 through 2023 are $0.9 million annually and for 2024, $0.4 million.

Equipment Purchase Commitments

The Company has committed to equipment purchases of approximately $0.6 million at December 31, 2016.

Employee benefit plans

eMagin has a defined contribution plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code, which is available to all employees who meet established eligibility requirements. Employee contributions are generally limited to 15% of the employee's compensation. Under the provisions of the 401(k) Plan, eMagin may match a portion of the participating employees' contributions. For the years ended December 31, 2016 and 2015, there was no employer match.

Employment and separation agreements

On September 14, 2015, Jeffrey P. Lucas was elected to serve as eMagin's Chief Financial Officer by the Company's Board of Directors. Pursuant to an offer letter, Mr. Lucas (i) is paid a base salary of $345,000; (ii) is eligible for a bonus of up to 20% of his base salary based on the Company's performance; (iii) was granted options to purchase 75,000 shares at a exercise price of $2.50 with a term of 5 years and vesting over 3 years; (iv) has a relocation allowance of $13 thousand; and (v) in the event of termination, will receive severance pay equal to 6 months of Mr. Lucas's salary at the time of termination.

Effective September 14, 2015, Paul C. Campbell resigned as Chief Financial Officer. Mr. Campbell and eMagin entered into a Separation Agreement and General Release in which the Company agreed to pay the remainder of the compensation, $103 thousand, due to Mr. Campbell under his employment agreement and an additional six months of Mr. Campbell's base salary, $168 thousand, paid on June 30, 2016. These amounts were expensed in the quarter ended September 30, 2015.

Litigation

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

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Commitments and Contingencies (Continued)

On May 5, 2015, Kimchuk, Inc. ("Kimchuk"), a former supplier, commenced action against the Company in the U.S. District Court, District of Connecticut, asserting breach of contract and seeking to recover approximately $389,000 in alleged damages. The Company filed its response and counter-complaint on August 11, 2015 wherein the Company denied the material allegations asserted by Kimchuk and sought approximately $3.5 million in damages from Kimchuk. The Company recorded an accrual for the litigation and estimated settlement in the quarter ended September 30, 2015.

On June 1, 2016, the Company entered into a settlement agreement with Kimchuk whereby, eMagin paid Kimchuk $227,000, and Kimchuk agreed to dismiss the matter, provide parts and material to eMagin and settle outstanding accounts payable. The Company did not incur any additional settlement expense during 2016.

During 2015, the Company received a letter from an attorney representing a former employee claiming damages for age discrimination and wrongful termination. In September 2016, this former employee commenced action against the Company in Superior Court for the State of Washington. In February 2017, the former employee's counsel sent a discovery request to the Company. The Company believes the assertions contained in this action are baseless and without merit and will defend its position vigorously.

Note 12 Concentrations

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

	Year Ended December 31,	
	2016	**2015**
North and South America	$ 12,664	$ 16,182
Europe, Middle East, and Africa	7,293	6,950
Asia Pacific	1,440	2,010
Total	$ 21,397	$ 25,142

	Year Ended December 31,	
	2016	**2015**
Domestic	58%	63%
International	42%	37%

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

In 2016, there was one customer that accounted for 11% of total revenues and 4% of accounts receivable as of December 31, 2016. In 2015, there were 2 customers that accounted for 12% and 11% of total revenues and 5% and zero, respectively, of accounts receivable at December 31, 2015.

At December 31, 2016 and 2015, there were ten customers who comprised 65% and 62%, respectively, of accounts receivable. At December 31, 2016, the Company had 2 customers that accounted for 17% and 12% of accounts receivable and, at December 31, 2015, one customer that accounted for 12% of accounts receivable.

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13 Quarterly Financial Information (Unaudited)

Summarized quarterly financial information for 2016 and 2015 are as follows (in thousands except share data):

	Quarters Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Revenues	$ 7,001	$ 5,533	$ 4,305	$ 4,558
Gross profit	$ 3,335	$ 1,335	$ 1,282	$ 490
Net (loss) income before income tax	$ 14	$ (2,164)	$ (2,430)	$ (3,468)
Net (loss) income	$ 14	$ (2,164)	$ (2,431)	$ (3,468)
Net (loss) income per share basic	$	$ (0.07)	$ (0.08)	$ (0.11)
Net (loss) income per share diluted	$	$ (0.07)	$ (0.08)	$ (0.11)
Weighted average number of shares outstanding basic	29,388,104	29,388,104	30,292,166	31,623,334
Weighted average number of shares outstanding diluted	29,637,804	29,388,104	30,292,166	31,623,334

	Quarters Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Revenues	$ 5,989	$ 7,034	$ 5,405	$ 6,714
Gross profit	$ 2,360	$ 2,608	$ 1,106	$ 904
Net (loss) income before income tax	$ 320	$ (66)	$ (2,234)	$ (2,125)
Net (loss) income	$ 320	$ (66)	$ (2,234)	$ (2,125)
Net (loss) income per share basic	$ 0.01	$	$ (0.09)	$ (0.08)
Net (loss) income per share diluted	$ 0.01	$	$ (0.09)	$ (0.08)
Weighted average number of shares outstanding basic	25,041,380	25,142,371	25,287,849	25,712,562
Weighted average number of shares outstanding diluted	25,747,631	25,142,371	25,287,849	25,712,562

Note 14 Subsequent Events

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

The amounts drawn on the line accrue interest at 6% per annum payable at maturity, and are subject to an upfront drawdown fee of 2% of the amount drawn and a quarterly interest surcharge of 2% paid upfront and due commencing on the 180-day anniversary of each draw regardless of whether

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eMAGIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Subsequent Events (Continued)

the draw is still outstanding and then a 2% quarterly interest surcharge until the draws are repaid. In connection with the financing commitment, the investor received a $50,000 commitment fee and a warrant to purchase 100,000 shares of common stock at an exercise price of $2.25 per share, the closing market price of the Company's common stock on the date the arrangement was executed. In the event the Company does not raise at least $5 million in gross proceeds from an equity offering within 180 days of the first draw on the facility, it will be required to file a registered rights offering with the Securities and Exchange Commission within 45 days of the 180-day period to all holders of securities of the Company. In connection with the facility, the Company, its lender and the investor entered into an intercreditor agreement.

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

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eMAGIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,964	$ 5,241
Accounts receivable, net	3,428	2,834
Unbilled accounts receivable	475	1,401
Inventories	9,080	7,435
Prepaid expenses and other current assets	1,132	1,040
Total current assets	16,079	17,951
Equipment, furniture and leasehold improvements, net	8,802	8,980
Intangibles and other assets	241	282
Total assets	$ 25,122	$ 27,213
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,272	$ 1,432
Accrued compensation	1,285	1,528
Revolving credit facility, net	920	1,689
Other accrued expenses	492	1,069
Deferred Revenue	988	445
Other current liabilities	566	590
Total current liabilities	5,523	6,753
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, $.001 par value: authorized 10,000,000 shares:		
Series B Convertible Preferred stock, (liquidation preference of $5,659) stated value $1,000 per share, $.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2017 and December 31, 2016		
Common stock, $.001 par value: authorized 200,000,000 shares, issued 35,134,655 shares, outstanding 34,972,589 shares as of September 30, 2017 and issued 31,788,582 shares, outstanding 31,626,516 shares as of December 31, 2016	35	32
Additional paid-in capital	246,312	239,915
Accumulated deficit	(226,248)	(218,987)
Treasury stock, 162,066 shares as of September 30, 2017 and December 31, 2016	(500)	(500)
Total shareholders' equity	19,599	20,460
Total liabilities and shareholders' equity	$ 25,122	$ 27,213

See notes to Condensed Consolidated Financial Statements.

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

Loss per share, diluted	$ (0.09)	$ (0.08)	$ (0.22)	$ (0.15)
Weighted average number of shares outstanding:				
Basic	34,972,589	30,292,166	33,214,262	29,689,458
Diluted	34,972,589	30,292,166	33,214,262	29,689,458

See notes to Condensed Consolidated Financial Statements.

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eMAGIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

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

See notes to Condensed Consolidated Financial Statements.

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1: Summary of Significant Accounting Policies

The Business

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

Basis of Presentation

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

Evaluation of Ability to Maintain Current Level of Operations

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

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

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 1: Summary of Significant Accounting Policies (Continued)

On May 24, 2017, the Company completed an underwritten offering of 3,300,000 shares of its common stock and warrants to purchase up to 1,650,000 shares of common stock and realized net proceeds of $5.8 million dollars after underwriting discounts and offering expenses.

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

Use of estimates

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

Reclassifications

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

Revenues and Cost Recognition

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

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 1: Summary of Significant Accounting Policies (Continued)

periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party.

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

Recently issued accounting pronouncements

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

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

In February 2016, the FASB issued guidance which changes the accounting for leases. The guidance requires lessees to recognize a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term and, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis for all leases (with the exception of short-term leases). Under the new guidance, leases previously defined as operating leases will be presented on the balance sheet. As a result, these leases will be recorded as an asset and a corresponding liability at the present value of the total lease payments. The asset will be decremented over the life of the lease on a pro-rata basis resulting in lease expense while the liability will be decremented using the interest method (i.e. principal and interest). As such, the Company expects the new guidance will impact the asset and liability balances of the Company's financial statements and related disclosures at the time of adoption. The new guidance is effective January 1, 2019.

In November 2015, the FASB issued guidance which requires deferred tax liabilities and assets be classified as noncurrent in the statement of financial position. This guidance requires entities with a

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Unbilled Accounts Receivable

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 1: Summary of Significant Accounting Policies (Continued)

Intangible Assets Patents

Acquired patents are recorded at purchase price as of the date acquired and amortized over the expected useful life which is generally the remaining life of the patent.

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

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

Product warranty

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

The following table provides a summary of the activity related to the Company's warranty liability included in other current liabilities, (in thousands):

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 1: Summary of Significant Accounting Policies (Continued)

Net Loss per Common Share

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

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

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

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

Note 2: Accounts Receivable, net

The majority of the Company's commercial accounts receivable are due from Original Equipment Manufacturers ("OEM's"). Credit is extended based on an evaluation of a customer's financial condition and, generally, collateral is not required.

Accounts receivable consisted of the following (in thousands):

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

Note 3: Inventories, net

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

	September 30, 2017	December 31, 2016
	(unaudited)	
Raw materials	$ 4,153	$ 3,619
Work in process	1,646	1,576
Finished goods	4,832	3,740
Total inventories	10,631	8,935
Less inventory reserve	(1,551)	(1,500)

Total inventories, net	$	9,080	$	7,435

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 4: Line of Credit

On December 21, 2016, the Company entered into a revolving credit facility with a lender that provides for up to a maximum amount of $5 million based on a borrowing base equivalent of 85% of eligible accounts receivable plus the lesser of $2 million or 50% of eligible inventory, (the "ABL facility"). The interest on the ABL facility is equal to the Prime Rate plus 3% but may not be less than 6.5% with a minimum monthly interest payment of $2 thousand. The Company is also obligated to pay the lender a monthly administrative fee of $1 thousand and an annual facility fee equal to 1% of the maximum amount borrowable under the facility. The ABL facility will automatically renew on December 31, 2019 for a one-year term unless written notice to terminate the agreement is provided by either party. In conjunction with entering into the financing, the Company incurred $228 thousand of debt issuance costs including lender and legal costs that will be amortized over the life of the ABL facility. In accordance with recently issued accounting guidance, the revolving credit facility balance is presented net of these unamortized debt issuance costs on the accompanying Consolidated Balance Sheet.

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

The ABL facility contains customary representations and warranties, affirmative and negative covenants and events of default. The Company is required to maintain a minimum tangible net worth of $13 million and a minimum working capital balance of $4 million at all times. As of September 30, 2017, we had unused borrowing availability of $3.7 million and were in compliance with all debt covenants.

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

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 4: Line of Credit (Continued)

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

Note 5: Stock-based Compensation

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

The following table summarizes the allocation of non-cash stock-based compensation to our expense categories for the three and nine month periods ended September 30, 2017 and 2016 (in thousands):

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

At September 30, 2017, total unrecognized compensation costs related to stock options was approximately $0.7 million, net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures and is expected to be recognized over a weighted average period of approximately 3 years.

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

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 5: Stock-based Compensation (Continued)

The Company does not expect to pay dividends in the near future. Therefore, the Company used an expected dividend yield of 0%. The risk-free interest rate used in the Black-Scholes option pricing model is based on yield available at dates of option grant, on U.S. Treasury securities with an equivalent term. Expected volatility is based on the weighted average historical volatility of the Company's common stock for the equivalent term. The expected term of the options represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on historical experience and vesting schedules of similar awards.

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

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

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

The aggregate intrinsic value in the table above represents the difference between the exercise price of the underlying options and the quoted price of the Company's common stock. For the nine months ended September 30, 2017 the aggregate intrinsic value of options exercised was $35 thousand The Company issues new shares of common stock upon exercise of stock options.

Note 6: Shareholders' Equity

Preferred Stock Series B Convertible Preferred Stock

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

Common Stock

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 6: Shareholders' Equity (Continued)

Underwritten Public Offering

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

Warrants

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

On August 24, 2016, in consideration for the exercise of the 2,216,500 warrant shares, the Company issued new common stock purchase warrants (the "New Warrants") to purchase 2,947,949 shares of the Company's common stock which is equal to 133% of the 2,216,500 warrant shares exercised. The New Warrants have an exercise price of $2.60 per share and are substantially similar to the warrants issued in December 2015, except that they are: (a) restricted; (b) not exercisable for six months from the date of issuance; and (c) have a term of five and a half years from the issuance date.

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

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

At September 30, 2017 there were New Warrants outstanding to purchase 2,947,949 shares of Company's common stock at an exercise price of $2.60, which expire in February 2023. Warrants to purchase 383,500 shares remaining from the December 2015 issuance were outstanding at September 30, 2017 at an exercise price of $2.05, which expire in June 2021.

In addition, on March 24, 2017 a warrant to purchase 100,000 shares of common stock at an exercise price of $2.25 per share, was issued in conjunction with an unsecured line of credit as described in Note 4: Line of Credit, all of which remain outstanding as of September 30, 2017.

On May 24, 2017, as described above, the Company issued warrants to purchase up to 1,650,000 shares of common stock at an exercise price of $2.45 in conjunction with a public offering, all of which remain outstanding as of September 30, 2017.

Note 7: Income Taxes

The Company's effective tax rate is calculated quarterly based upon current assumptions relating to the full year's estimated operating results and various tax-related items. The Company's effective tax rate for the three and nine month periods ended September 30, 2017 and 2016 was 0%. The difference

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 7: Income Taxes (Continued)

between the effective tax rate of 0% and the U.S. federal statutory rate of 34% for the three and nine month periods ended September 30, 2017 and 2016 was primarily due to recognizing a full valuation allowance on deferred tax assets.

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

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

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

Note 8: Commitments and Contingencies

Equipment Purchase Commitments

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

Litigation

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

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

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eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 9: Concentrations

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

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

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

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

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

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

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6,451,613 Shares of Common Stock

Warrants to Purchase up to 2,580,645 Shares of Common Stock

Sole Book-Running Manager

Craig-Hallum Capital Group

Co-Manager

H.C. Wainwright & Co.

January , 2018

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PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the estimated costs and expenses, other than underwriting discounts and commissions, payable by the registrant in connection with the offering of the securities being registered. All the amounts shown are estimates, except for the SEC registration fee.

SEC registration fee	$	2,004.45
FINRA filing fee		2,915
Printing expenses		51,000
Accounting fees and expenses		32,000
Legal fees and expenses		250,000
Transfer agent fees and expenses		6,000
Miscellaneous expenses		5,000
Total	$	348,919.45

Item 14. Indemnification of Directors and Officers.

Our Articles of Incorporation, as amended and restated, provide to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware that our directors or officers shall not be personally liable to us or our stockholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our Articles of Incorporation, as amended and restated, is to eliminate our rights and our stockholders (through stockholders' derivative suits on behalf of our company) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in our Articles of Incorporation, as amended, are necessary to attract and retain qualified persons as directors and officers.

Our By Laws also provide that the Board of Directors may also authorize us to indemnify our employees or agents, and to advance the reasonable expenses of such persons, to the same extent, following the same determinations and upon the same conditions as are required for the indemnification of and advancement of expenses to our directors and officers. As of the date of this registration statement, the Board of Directors has not extended indemnification rights to persons other than directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

Item 15. Recent Sales of Unregistered Securities.

In the three years preceding the filing of this registration statement, we have issued the following securities that were not registered under the Securities Act, as amended:

On March 24, 2017, the Company entered into an unsecured debt financing arrangement with Stillwater Trust LLC, an investor in the Company. In connection with the financing commitment, we issued a warrant to purchase 100,000 shares of common stock to this investor at an exercise price of $2.25 per share, the closing market price of the Company's common stock on the date the arrangement

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was executed. The issuance of the warrants was exempt from registration under section 4(a)(2) of the Securities Act of 1933, as amended.

Item 16. Exhibits.

(a) Exhibits.

The exhibits to the registration statement are listed in the Exhibit Index to this registration statement and are incorporated herein by reference.

(b) Financial Statement Schedules.

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(i) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this registration statement as of the time it was declared effective.

(ii) For the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

EXHIBIT INDEX

Exhibit Number	Description
1.1(1)	Form of Underwriting Agreement.
2.1	Agreement and Plan of Merger between Fashion Dynamics Corp., FED Capital Acquisition Corporation and FED Corporation dated March 13, 2000 (incorporated by reference to exhibit 2.1 to the Registrant's Current Report on Form 8-K/A filed on March 17, 2000).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to an appendix to the Registrant's Definitive Proxy Statement filed on September 21, 2006).
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation (incorporated by reference to an appendix to the Registrant's Definitive Proxy Statement filed on October 26, 2010).
3.3	Bylaws of the Registrant (incorporated by reference to exhibit 99.3 to the Registrant's Definitive Proxy Statement filed on June 14, 2001).
3.4	Certificate of Designations of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 4.2 of the Registrant's current report on Form 8-K filed on December 23, 2008).
4.1(1)	Form of Common Stock Certificate of the Registrant.
4.2(1)	Form of Common Stock Warrant Agreement and Common Stock Purchase Warrant Certificate.
4.2	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 to the Registrant's current report on Form 8-K filed on December 18, 2015).
4.3	Form of Letter Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on From 8-K filed on August 24, 2016).
4.4	Form of Common Stock Purchase Warrant issued to the Warrant Holders in the Transaction (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on August 24, 2016).
4.5	Form of Common Stock Purchase Warrant issued to the Warrant Holders in the Transaction (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on May 24, 2017).
4.5	Common Stock Purchase Warrant issued to Stillwater Trust LLC (incorporated by reference to Exhibit 4.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017).
5.1(2)	Opinion of Goodwin Procter LLP.
10.1	Form of Agreement for Stock Option Grant pursuant to 2003 Stock Option Plan (incorporated by reference to exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on March 14, 2000).
10.2	Nonexclusive Field of Use License Agreement relating to OLED Technology for miniature, high resolution displays between the Eastman Kodak Company and FED Corporation dated March 29, 1999 (incorporated by reference to exhibit 10.6 to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2000 filed on April 30, 2001).

Exhibit Number	Description
10.3	Amendment Number 1 to the Nonexclusive Field of Use License Agreement relating to the LED Technology for miniature, high resolution displays between the Eastman Kodak Company and FED Corporation dated March 16, 2000 (incorporated by reference to exhibit 10.7 to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2000 filed on April 30, 2001).
10.4	Lease between International Business Machines Corporation ("IBM") and FED Corporation dated May 28, 1999 (incorporated by reference to exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001).
10.5	Amendment Number 1 to the Lease between IBM and FED Corporation dated July 9, 1999 (incorporated by reference to exhibits 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001)
10.6	Amendment Number 2 to the Lease between IBM and FED Corporation dated January 29, 2001 (incorporated by reference to exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001).
10.7	Amendment Number 3 to Lease between IBM and FED Corporation dated May 28, 2002 (incorporated by reference to the Company's Form S-1A as filed November 12, 2008).
10.8	Amendment Number 4 to Lease between IBM and FED Corporation dated December 14, 2004 (incorporated by reference to the Registrant's Current Report on Form 8-K filed on December 20, 2004).
10.09	Amended and Restated 2003 Stock Option Plan, filed September 1, 2005, as filed in the Registrant's Definitive Proxy Statement, incorporated herein by reference.
10.10	2005 Employee Stock Purchase Plan, filed September 1, 2005, as filed in the Registrant's Definitive Proxy Statement, incorporated herein by reference.
10.11	2004 Amended and Restated Non-Employee Compensation Plan, filed September 21, 2006, as filed in the Registrant's Definitive Proxy Statement incorporated herein by reference.
10.12	Securities Purchase Agreement, dated December 18, 2008 (incorporated by reference to exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on December 22, 2008).
10.13	Registration Rights Agreement, dated December 18, 2008 (incorporated by reference to exhibit 99.2 of the Registrant's Current Report on Form 8-K filed on December 22, 2008).
10.14	Exchange Agreement, dated December 18, 2008 (incorporated by reference to exhibit 99.3 of the Registrant's Current Report on Form 8-K filed on December 22, 2008).
10.15	Amendment Number 6 to the lease between IBM and eMagin Corporation dated May 27, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-k filed on June 19, 2009).
10.16	Lease between Northup Building LLC and eMagin dated May 28, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K filed on June 19, 2009).

Exhibit Number	Description
10.17	Amended and Restated Employment Agreement between the Company and Andrew G. Sculley dated as of December 31, 2013 (incorporated by reference to exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on January 3, 2014).
10.18	Amended and Restated Employment Agreement between the Company and Paul Campbell dated as of December 31, 2013 (incorporated by reference to exhibit 99.2 of the Registrant's Form 8-K filed on January 3, 2014).
10.19	2011 Incentive Stock Plan (incorporated by reference to exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on November 8, 2011).
10.20	2013 Incentive Stock Plan, filed April 2, 2013, as filed in the Registrant's Definitive Proxy Statement incorporated herein by reference.
10.21	Employment Agreement, dated as of April 30, 2013, by and between the Company and Gabriel G. Matus (incorporated by reference to exhibit 99.1 of the Registrant's Form 8-K filed on May 6, 2013).
10.22	Amendment Number 7 to the lease between IBM and eMagin Corporation dated May 2, 2014 (incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 8, 2014).
10.23	Amended and Restated Employment Agreement between the Company and Jerome T. Carollo dated as of May 13, 2014 (incorporated by reference to exhibit 10.1 of the Registrant's Form 8-K filed on May 16, 2014).
10.24	At the Market Offering Agreement, dated as of September 16, 2015, by and between the Company and Craig-Hallum Capital Group LLC (incorporated by reference to exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on September 3, 2015).
10.25	Lucas Offer Letter, dated as of September 10, 2015, by and between the Company and Jeffrey P. Lucas (incorporated by reference to exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on September 17, 2015).
10.26	Separation Agreement and General Release, dated as of September 16, 2015, by and between the Company and Paul C. Campbell (incorporated by reference to exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on September 17, 2015).
10.27	Securities Purchase Agreement, dated as of December 17, 2015 (incorporated by reference to exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 18, 2015).
10.28	Placement Agency Agreement, dated as of December 17, 2015 (incorporated by reference to exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on December 18, 2015).
10.29	8th Lease Amendment between International Global Foundries U.S. 2 LLC and eMagin Corporation, effective as of March 21, 2016 (incorporated by reference to exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on May 9, 2016).
10.30	Executive Employment Agreement, dated as of July 1, 2016, by and between the Company and Andrew G. Sculley, Jr. (incorporated by reference to exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on July 7, 2016).

Exhibit Number	Description
10.31	Financing Agreement, dated as of March 24, 2017, by and between the Company and Rosenthal & Rosenthal, Inc. (incorporated by reference to exhibit 10.31 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).
10.32	Letter Agreement re: Line of Credit, dated as of March 24, 2017, by and between the Company and Stillwater Trust LLC (incorporated by reference to exhibit 10.32 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).
10.33	Promissory Note, dated as of March 24, 2017, by and between the Company and Stillwater Trust LLC (incorporated by reference to exhibit 10.33 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).
10.34	Subordination Agreement, dated as of March 24, 2017, by and among the Company, Stillwater Trust LLC and Rosenthal & Rosenthal, Inc. (incorporated by reference to exhibit 10.34 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).
10.35	Form of Change in Control Agreement for Certain Officers, approved for use on November 8, 2017 (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017).
21.1	Subsidiaries of the Company (incorporated by reference to exhibit 21.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).
23.1(1)	Consent of RSM US LLP, Independent Registered Public Accounting Firm.
23.2(2)	Consent of Goodwin Procter LLP (included in Exhibit 5.1).
24.1	Power of Attorney (included on signature page).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

(1) Filed herewith.

(2) Filed previously.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on this Amendment No. 1 to the Registration Statement on Form S-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Hopewell Junction, State of New York, on this 22nd day of January, 2018.

EMAGIN CORPORATION

By: /s/ ANDREW G. SCULLEY

Andrew G. Sculley
Chief Executive Officer and President
(Principal Executive Officer)

By: /s/ JEFFREY P. LUCAS

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

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 to the Registration Statement on Form S-1 has been signed below by the following persons in the capacities and on the dates indicated below.

Signature	Title	Date
/s/ ANDREW G. SCULLEY Andrew G. Sculley	Chief Executive Officer, President and Director (Principal Executive Officer)	January 22, 2018
/s/ JEFFREY P. LUCAS Jeffrey P. Lucas	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	January 22, 2018
* Christopher Brody	Director	January 22, 2018
* Paul Cronson	Director	January 22, 2018
* Leslie G. Polgar	Director	January 22, 2018

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Signature	Title	Date
*		
Ellen Richstone	Director	January 22, 2018
*		
Stephen M. Seay	Director	January 22, 2018
*		
Jill J. Wittels	Director	January 22, 2018

*By: /s/ JEFFREY P. LUCAS

Attorney-in-Fact