

EMAGIN CORP
Form DEF 14A
September 01, 2005

SCHEDULE 14A

**(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT**

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Confidential, For Use of the Commission Only

Permitted by Rule 14a-6(e)(2))

(As

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

EMAGIN CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

eMagin Corporation

**2005
NOTICE OF ANNUAL MEETING
AND
PROXY STATEMENT**

**Friday, September 30, 2005
at 2:00 pm**

**American Stock Exchange
86 Trinity Place
New York, NY**

EMAGIN CORPORATION

10500 NE 8TH STREET

Suite 1400

BELLEVUE, WA 98004

August 29, 2005

Dear Stockholder:

You are cordially invited to attend the 2005 Annual Meeting of Stockholders (the "Meeting") of eMagin Corporation, which will be held at the American Stock Exchange, 86 Trinity Place, New York, New York on Friday, September 30, 2005, at 2:00 pm local time. Details of the business to be conducted at the Meeting are provided in the attached Notice of Annual Meeting and Proxy Statement.

Whether or not you plan to attend the Meeting, it is important that your shares be represented and voted at the Meeting. Therefore, I urge you to vote your shares as soon as possible. Instructions in the proxy card will tell you how to vote over the Internet, by telephone, or by returning your proxy card by mail. The proxy statement explains more about proxy voting. Please read it carefully.

I highly encourage you to receive future eMagin annual reports and proxy statement materials electronically and help us save costs in producing and distributing these materials. If you wish to receive our annual report and proxy statement electronically next year, please follow the instructions on the enclosed proxy card.

Beginning at 1:00 pm, prior to commencement of the meeting, we will provide interactive demonstrations of some of our exciting microdisplay products as well as several products being commercialized by our customers. If you would like to participate in this event, please arrive by 1:30 pm to allow time for viewing the exhibit.

I look forward to meeting those of you who will be able to attend the Meeting, and I appreciate your continued support of our company.

Sincerely,

/s/ Gary W. Jones

Gary W. Jones
Chairman of the Board of Directors
President and Chief Executive Officer

eMagin Corporation
NOTICE OF ANNUAL MEETINGS OF STOCKHOLDERS
TO BE HELD ON SEPTEMBER 30, 2005

To our Stockholders:

The 2005 Annual Meetings of Stockholders (the "Annual Meeting") of eMagin Corporation ("eMagin" or the "Company") will be held at the Board Room of the American Stock Exchange, 86 Trinity Place, New York, New York, on Friday, September 30, 2005, beginning at 2:00 p.m. local time, to consider the following proposals:

1. To elect 2 directors to the Company's Board of Directors, to hold office for terms of three (3) years and until their successors are duly elected and qualified or until their earlier resignation or removal (Proposal No. 1);
2. To adopt eMagin's 2005 Employee Stock Purchase Plan (Proposal No. 2);
3. To amend the 2003 Stock Option Plan to provide for grants of shares of Common Stock in addition to options to purchase shares of Common Stock (Proposal No. 3);
4. To increase the number of authorized shares of Common Stock issuable pursuant to the 2004 Non-Employee Stock Compensation Plan from 1,000,000 to 2,000,000 shares (Proposal 4);
5. To ratify the appointment of Eisner LLP as the Company's independent auditors for the fiscal year ending December 31, 2005 (Proposal No. 5); and
6. To consider and transact such other business as may properly come before the Annual Meeting and any adjournment or postponement thereof.

BECAUSE OF THE SIGNIFICANCE OF THESE PROPOSALS TO THE COMPANY AND ITS SHAREHOLDERS, IT IS VITAL THAT EVERY SHAREHOLDER VOTES AT THE ANNUAL MEETING IN PERSON OR BY PROXY.

These proposals are fully set forth in the accompanying Proxy Statement, which you are urged to read thoroughly. For the reasons set forth in the Proxy Statement, your Board of Directors recommends a vote "FOR" each of the proposals. The Company intends to mail the Annual Report, Proxy Statement and Proxy enclosed with this notice on or about August 30, 2005, to all stockholders entitled to vote at the Annual Meeting. If you were a stockholder of record of eMagin common stock (AMEX:EMA) on August 18, 2005, the record date for the Annual Meeting, you are entitled to vote at the meeting and any postponements or adjournments of the meeting. Shareholders are cordially invited to attend the Annual Meeting. However, whether or not you plan to attend the meeting in person, your shares should be represented and voted. After reading the enclosed Proxy Statement, please sign, date, and return promptly the enclosed proxy in the accompanying postpaid envelope we have provided for your convenience to ensure that your shares will be represented. Alternatively, you may wish to provide your response by telephone or electronically through the Internet by following the instructions set out on the enclosed Proxy card. If you do attend the meeting and wish to vote your shares personally, you may revoke your Proxy.

Admission to the Annual Meeting will be by ticket only. If you are a registered stockholder planning to attend the meeting, please check the appropriate box on the Proxy card and retain the bottom portion of the card as your admission ticket. Registration will begin at 1:00 p.m., and seating will begin at 1:30 p.m. A product exhibit will be available beginning at 1:00 p.m. and concluding at 1:50 p.m. Stockholders holding stock in brokerage accounts ("street name" holders) will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices, and other electronic devices will not be permitted at the meeting.

We thank you for your cooperation in returning your proxy as promptly as possible.

By Order of the Board of Directors

/S/ Susan K. Jones

Susan K. Jones
Executive Vice President and Secretary

Dated: August 29, 2005, Bellevue, WA

IMPORTANT

The return of your signed Proxy as promptly as possible will greatly facilitate arrangements for the Annual Meeting. No postage is required if the Proxy is returned in the envelope enclosed for your convenience and mailed in the United States. If you received a proxy card with a website address and voting codes, we urge you to vote on the Internet at <http://proxy.georgeson.com>. or telephonically at 1-800-790-3272, to ensure that your vote is recorded without mail delays. If you vote by telephone or the Internet you do not need to return the proxy card.

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IMPORTANT: Please immediately SIGN, DATE, and RETURN the enclosed Proxy or submit your Proxy by telephone or the Internet, whether or not you plan to attend the Annual Meeting. A return envelope, which requires no postage if mailed in the United States, is enclosed for your convenience.

eMagin Corporation
10500 NE 8th Street, Suite 1400
Bellevue, WA 98004
(425) 749-3600

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of eMagin Corporation (“eMagin” or the “Company”) to be voted at the Annual Meeting of stockholders which will be held at Trinity Place, to be held in the Board Room of the American Stock Exchange, 86 Trinity Place, New York, New York, Tuesday, September 30, 2005 beginning at 2:00 p.m., and at any postponements or adjournments thereof on.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

What is the purpose of the Annual Meeting?

At our Annual Meeting, stockholders will act upon the matters outlined in the Notice of Annual Meeting on the cover page of this Proxy Statement, including the election of directors, adopting the eMagin 2005 Employee Stock Purchase Plan, amending the 2003 Stock Option Plan to provide for grants of shares of Common Stock in addition to options to purchase shares of Common Stock, increase the number of authorized shares of Common Stock issuable pursuant to the 2004 Non-Employee Stock Compensation Plan from 1,000,000 to 2,000,000 shares and ratification of the appointment of the Company’s independent auditors. In addition, management will report on the performance of the Company during fiscal year 2004 and respond to questions from stockholders.

Who is entitled to vote at the meeting?

Stockholders of record at the close of business on August 18, 2005, the record date for the meeting, are entitled to receive notice of and to participate in the Annual Meeting. As of that record date, the Company had outstanding and entitled to vote 82,829,846 shares of common stock. The common stock is the only class of stock of eMagin that is outstanding and entitled to vote at the Annual Meeting. If you were a stockholder of record of common stock on that record date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponements or adjournments of the meeting. Each outstanding share of eMagin common stock will be entitled to one vote on each matter. Stockholders who own shares registered in different names or at different addresses will receive more than one Proxy card. You must sign and return each of the Proxy cards received to ensure that all of the shares owned by you are represented at the Annual Meeting.

Who can attend the meeting?

Only stockholders as of the record date, or their duly appointed proxies, may attend the meeting, and each may be accompanied by one guest. Seating, however, is limited. Admission to the meeting will be on a first-come, first-served basis. Registration and product demonstrations will begin at 1 p.m., and seating will begin at 1:30 p.m. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

You will need an admission ticket to enter the meeting. For registered stockholders, the bottom portion of the Proxy card enclosed with the Proxy Statement is their Annual Meeting admission ticket. Beneficial owners with shares held in “street name” (that is, through an intermediary, such as a bank or broker), should request tickets in writing from Investor Relations, eMagin Corporation, 10500 NE 8th Street, Suite 1400, Bellevue, WA 98004. (or by facsimile to 425-749-3601) and include proof of ownership, such as a copy of a bank or brokerage firm account statement or a

letter from the broker, trustee, bank or nominee holding their stock, confirming beneficial ownership. Please note that if you hold your shares in “street name” you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the meeting.

Why is the Company soliciting proxies?

Because many of our stockholders are unable to personally attend the Annual Meeting, the Board of Directors of eMagin (the "Board" or the "Board of Directors") solicits the enclosed proxy so that each stockholder is given an opportunity to vote. This proxy enables each stockholder to vote on all matters which are scheduled to come before the meeting. When the Proxy is returned properly executed, the stockholder's shares will be voted according to the stockholder's directions. Stockholders are urged to specify their choices by marking the appropriate boxes on the enclosed Proxy card.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the number of shares of common stock issued and on the record date will constitute a quorum permitting the meeting to conduct its business. As noted above, as of the record date, 82,829,846 shares of eMagin common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 41,414,924 votes will be required to establish a quorum.

How do I vote?

For your convenience, eMagin is offering you four methods of voting.

- You may indicate your vote on the enclosed proxy card, sign and date the card, and return the card in the enclosed prepaid envelope.
- You may vote by telephone by calling the toll free number that appears on the enclosed proxy card and following the instructions given.
- You may vote via the Internet by following the instructions provided on the enclosed proxy card.
- You may attend the meeting and vote in person.

All shares entitled to vote and represented by a properly completed and executed proxy received before the meeting and not revoked will be voted at the meeting as you instruct in a proxy delivered before the meeting. If you do not indicate how your shares should be voted on a matter, the shares represented by your properly completed and executed proxy will be voted as the Board of Directors recommends on each of the enumerated proposals and with regard to any other matters that may be properly presented at the meeting and all matters incident to the conduct of the meeting. If you are a registered stockholder and attend the meeting, you may deliver your completed Proxy card in person. "Street name" stockholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares. All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

Can I vote by telephone or electronically?

If you are a registered stockholder (that is, if you hold your stock in certificate form), you may vote by telephone, or electronically through the Internet, by following the instructions included with your Proxy card. If your shares are held in "street name," please check your Proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically. Please follow the voting instructions on the enclosed proxy card. The deadline for voting by telephone or electronically is 5:00 p.m. (Eastern Standard Time) on September 29, 2005.

Can I change my vote after I return my Proxy card?

A Proxy may be revoked by giving the Secretary of eMagin written notice of revocation at any time before the voting of the shares represented by the Proxy. A stockholder who attends the meeting may revoke a Proxy at the meeting. Attendance at the meeting will not, by itself, revoke a Proxy.

Abstentions and broker non-votes. While the inspectors of election will treat shares represented by Proxies that reflect abstentions or include "broker non-votes" as shares that are present and entitled to vote for purposes of determining the presence of a quorum, abstentions or "broker non-votes" do not constitute a vote "for" or "against" any matter and thus will be disregarded in any calculation of "votes cast." However, abstentions and "broker non-votes" will have the effect of a negative vote if an item requires the approval of a majority of a quorum or of a specified proportion of all issued and outstanding shares.

What are the Board's recommendations?

Unless you give other instructions on your Proxy card, the persons named as proxy holders on the Proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendation is set forth together with the description of each item in this Proxy Statement. In summary, the Board recommends a vote:

- *for* election of the nominated slate of Class A directors;
- *for* adopting the eMagin 2005 Employee Stock Purchase Plan;
- *for* amendment of the 2003 Stock Option Plan to provide for grants of shares of Common Stock in addition to options to purchase shares of Common Stock;
- *for* increasing the number of authorized shares of Common Stock issuable pursuant to the 2004 Non-Employee Stock Compensation Plan from 1,000,000 to 2,000,000 shares; and
- *for* ratification of the appointment of Eisner LLP as the Company's independent auditors for fiscal year 2005.

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

What vote is required to approve each item?

The election of the directors of the Company requires the affirmative vote of a plurality of the votes cast by stockholders at the Annual Meeting. A properly executed Proxy marked "WITHOLD AUTHORITY" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for the purposes of determining whether there is a quorum.

Adopting the 2005 Employee Stock Purchase Plan, amending the 2003 Stock Option Plan, amending the 2004 Non-Employee Stock Compensation Plan and ratification of the appointment of Eisner LLP as the Company's independent auditors for fiscal year 2005, will each require the affirmative vote of the holders of at least a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the Annual Meeting.

INFORMATION ABOUT STOCK OWNERSHIP***How much stock is owned by 5% stockholders, directors, and executive officers?***

The following table sets forth the number of shares known to be owned by all persons who own at least 5% of eMagin's outstanding common stock, the Company's directors, the executive officers named in the summary "Annual Compensation" table on page 9, and the directors and executive officers as a group as of August 10, 2005, unless otherwise noted. Unless otherwise indicated, the stockholders listed in the table have sole voting and investment power with respect to the shares indicated.

Name of Owner	Common Stock Beneficially Owned	Percentage Beneficial Common Stock**
Stillwater LLC (1)	14,576,266	16.6%
George Haywood (2)	10,169,952	11.8%
Gary W. Jones (3)	8,995,648	10.4%
Susan K Jones (3)	8,995,648	10.4%
Ginola Limited (4)	8,654,795	10.1%
Rainbow Gate (5)	2,016,745	2.4%
Dr. K.C. Park (6)	1,291,914	1.5%
Jack Rivkin (7)	1,213,896	1.5%
Ogier Trustee (Jersey) Limited (8)	976,200	1.2%
Paul Cronson (9)	507,657	*
Claude Charles (10)	315,000	*
Chelsea Trust Company Limited	119,161	*
John Atherly (11)	137,493	*
Jack Goldman (12)	107,500	*
Adm. Thomas Paulsen (13)	85,000	*
Dr. Jill Wittels (14)	85,000	*
All executive officers and directors as a group (consisting of 10 individuals) (15)	12,739,108	14.9%

* Less than 1% of the outstanding common stock

** Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of August 10, 2005 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. Percentages are based on a total of 82,776,196 shares of common stock outstanding on August 10, 2005, and the shares issuable upon the exercise of options and warrants exercisable on or within 60 days of August 10, 2005, as described below.

(1) This figure represents:

(i) 9,326,145 shares owned by Stillwater LLC, which includes 1,719,326 shares owned by Rainbow Gate Corporation, in which the sole member of Stillwater LLC is the investment manager of Rainbow Gate Corporation;

(ii) warrants held by Stillwater LLC to purchase 5,250,121 shares, which includes:

(a) a warrant to purchase 300,000 shares that may not be exercised by Stillwater LLC so long as Stillwater LLC is the beneficial owner, directly or indirectly, of more than ten percent (10%) of the common stock of eMagin for purposes of Section 16 of the Securities Exchange Act of 1934, and

(b) warrants to purchase 297,419 shares held by Rainbow Gate Corporation, in which the sole member of Stillwater LLC is the investment manager of Rainbow Gate Corporation;

(2) This figure includes 3,586,664 common shares underlying warrants.

(3) This figure represents shares owned by Gary Jones and Susan Jones who are married to each other, including (i) 2,027,271 shares of common stock issuable upon exercise of stock options held by Gary Jones and (ii) 1,969,400 shares of common stock issuable upon exercise of stock options held by Susan Jones. This does not include (i) 983,333 shares underlying options owned by Gary Jones which are not exercisable within 60 days of August 10, 2005; and (ii) 645,333 shares underlying options owned by Susan Jones which are not exercisable within 60 days of August 10, 2005.

(4) This figure represents:

(i) 6,026,598 shares owned by Ginola Limited, which include 1,719,326 shares held indirectly by Rainbow Gate Corporation, 650,800 shares owned by Ogier Trustee(Jersey) Limited, as trustee, 119,161 shares owned by Chelsea Trust Company Limited, as trustee, and 396,223 shares owned by Crestflower Corporation. Ginola Limited disclaims beneficial ownership of the shares owned by Crestflower Corporation, Ogier Trustee (Jersey) Limited, as trustee, and Chelsea Trust Company Limited, as trustee; and

(ii) warrants held by Ginola Limited to purchase 2,628,197 common shares, which includes warrants to purchase 297,419 shares held by Rainbow Gate Corporation, in which the sole shareholder of Ginola Limited is also the sole shareholder of Rainbow Gate Corporation, and warrants to purchase 325,400 shares owned by Ogier Trustee (Jersey) Limited, as trustee. Ginola Limited disclaims beneficial ownership of the shares owned by Ogier Trustee (Jersey) Limited, as trustee.

(5) This figure includes 297,419 shares underlying warrants.

(6) This figure includes 1,168,985 common stock shares issuable upon exercise of stock options, and does not include 258,333 shares underlying options owned by Dr. K. C. Park which are not exercisable within 60 days of August 10, 2005.

(7) This figure represents 639,093 shares owned by Mr. Rivkin, warrants held by Mr. Rivkin to purchase 244,803 shares of common stock, and 330,000 common stock shares issuable upon exercise of stock options.

(8) This figure includes 325,400 shares underlying warrants.

(9) This figure represents 191,984 shares owned by Mr. Cronson, of which 17,688 are owned by the Evelyn Sharpe Foundation in which Mr. Cronson is a board member, and 120,974 are owned by a family member wherein Mr. Cronson disclaims ownership. 215,673, shares underlying warrants, and 100,000 shares underlying options held directly and indirectly by Paul Cronson. This includes (i) 42,857 shares underlying warrants held indirectly by a family member wherein Mr. Cronson disclaims ownership; and (ii) 43,651 shares underlying warrants held indirectly by Larkspur Corporation of which he is the Managing Director.

(10) This figure represents shares underlying options.

(11) This figure represents 4,160 owned by Mr. Atherly and 133,333 shares underlying options. This figure does not include 866,667 shares of common stock issuable upon exercise of stock that are not presently exercisable and are not exercisable within 60 days of August 10, 2005.

(12) This figure represents shares underlying options.

(13) This figure represents shares underlying options.

(14) This figure represents shares underlying options.

(15) This figure includes (i) warrants to purchase 460,476 shares of common stock, and (ii) 6,321,489 shares of common stock issuable upon exercise of stock options.

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INFORMATION ABOUT THE BOARD OF DIRECTORS

The Board of Directors oversees our business and affairs and monitors the performance of management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations. The directors keep themselves informed through discussions with the Chief Executive Officer, other key executives and by reading the reports and other materials that we send them and by participating in Board and committee meetings. Our directors hold office until their successors have been elected and duly qualified unless the director resigns or by reasons of death or other cause is unable to serve in the capacity of director. Biographical information about our directors is provided in “*Item 1 - Proposal for the Election of Class A Directors*” on page 17.

How often did the Board meet during fiscal 2004?

During 2004, the Board of Directors held 7 meetings. Each director attended no fewer than 75% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all committees on which such director served. The Board also approved certain actions by unanimous written consent.

What committees has the Board established?

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

BOARD COMMITTEE MEMBERSHIP

Name	Audit Committee	Compensation Committee	Governance and Nominating Committee
Gary W. Jones			
Claude Charles	*		
Paul Cronson (1)	*		
Irwin Engelman	**		
Jacob Goldman		**	**
Rear Admiral Thomas Paulsen, USN (Ret.)		*	*
Jack Rivkin (2)	*	*	
Dr. Jill Wittels			*

* Member of Committee

** Chairman of Committee

(1) The Board of Directors has determined that Paul Cronson, due to Larkspur Corporation’s role in certain of the Company’s financings, no longer meets the “independent director” requirements of Section 121(A) of the American Stock Exchange Company Guide and can no longer serve as a member of the Company’s audit committee. Accordingly, immediately following the Annual Meeting, the Board of Directors will appoint Thomas Paulsen as the third independent director to the audit committee in accordance with Section 121(B)(2) of the American Stock Exchange Company Guide.

(2) Jack Rivkin is retiring from the Board of Directors, as announced at the time of Mr. Engelman’s election to the Board. Mr. Engelman has assumed Chairmanship of the Audit Committee and Dr. Goldman has assumed Chairmanship of the Compensation Committee.

Audit Committee. The Audit Committee is responsible for determining the adequacy of the Company's internal accounting and financial controls, reviewing the results of the audit of the Company performed by the independent public accountants, and recommending the selection of independent public accountants. The functions of the Audit Committee and its activities during 2004 are described in more detail under the heading "*Report of the Audit Committee.*" During the year, the Board examined the composition of the Audit Committee in light of the adoption by The American Stock Exchange, Inc. (the "Amex") of new rules governing audit committees. Based upon this examination, Board has determined that, with the exception of Mr. Cronson, each of the members of the Audit Committee is unrelated, an outside member with no other affiliation with the Company and is independent as defined by the American Stock Exchange. The Board has determined that Mr. Engelman is an "audit committee financial expert" as defined by the SEC. During 2004, the Audit Committee held 5 meetings.

Compensation Committee. The Compensation Committee determines matters pertaining to the compensation and expense reporting of certain executive officers of the Company, and administers the Company's stock option, incentive compensation, and employee stock purchase plans. During 2004, the Compensation Committee held 2 meetings.

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for nominating directors and for all other purposes outlined in the Governance and Nominating Committee Charter. The Governance and Nominating Committee is composed of Messrs. Goldman and Paulsen, and Ms. Wittels. The Board has determined that each of the members of the Governance and Nominating Committee is unrelated, an outside member with no other affiliation with the Company and independent as defined by the American Stock Exchange. During 2004, the Governance and Nominating Committee held 2 meetings.

Nomination of Directors

As provided in its charter and our company's corporate governance principles, the Governance and Nominating Committee is responsible for identifying individuals qualified to become directors. The Governance and Nominating Committee seeks to identify director candidates based on input provided by a number of sources, including (1) the Governance and Nominating Committee members, (2) our other directors, (3) our stockholders, (4) our Chief Executive Officer or Chairman, and (5) third parties such as professional search firms. In evaluating potential candidates for director, the Nominating and Corporate Governance Committee considers the entirety of each candidate's credentials.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of the Board of Directors. However, at a minimum, candidates for director must possess:

- high personal and professional ethics and integrity;
- the ability to exercise sound judgment;
- the ability to make independent analytical inquiries;
- a willingness and ability to devote adequate time and resources to diligently perform Board and committee duties; and
- the appropriate and relevant business experience and acumen.

In addition to these minimum qualifications, the Governance and Nominating Committee also takes into account when considering whether to nominate a potential director candidate the following factors:

- whether the person possesses specific industry expertise and familiarity with general issues affecting our business;
- whether the person's nomination and election would enable the Board to have a member that qualifies as an "audit committee financial expert" as such term is defined by the Securities and Exchange Commission (the "SEC") in Item 401 of Regulation S-K;
- whether the person would qualify as an "independent" director under the listing standards of the American Stock Exchange;

- the importance of continuity of the existing composition of the Board of Directors to provide long term stability and experienced oversight; and
- the importance of diversified Board membership, in terms of both the individuals involved and their various experiences and areas of expertise.

The Governance and Nominating Committee will consider director candidates recommended by stockholders provided such recommendations are submitted in accordance with the procedures set forth below. In order to provide for an orderly and informed review and selection process for director candidates, the Board of Directors has determined that stockholders who wish to recommend director candidates for consideration by the Governance and Nominating Committee must comply with the following:

- The recommendation must be made in writing to the Corporate Secretary, eMagin Corporation, 10500 NE 8th Street, Suite 1400, Bellevue, WA 98004. The recommendation must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years and evidence of the recommending person's ownership of the Company's common stock.
- The recommendation shall also contain a statement from the recommending shareholder in support of the candidate; professional references, particularly within the context of those relevant to board membership, including issues of character, judgment, diversity, age, independence, expertise, corporate experience, length of service, other commitments and the like; and personal references.
- A statement from the shareholder nominee indicating that such nominee wants to serve on the Board and could be considered "independent" under the Rules and Regulations of the American Stock Exchange and the Securities and Exchange Commission ("SEC"), as in effect at that time.

All candidates submitted by stockholders will be evaluated by the Governance and Nominating Committee according to the criteria discussed above and in the same manner as all other director candidates.

How are directors compensated?

Non-management directors receive options under the 2003 Stock Option Plan (the "2003 Plan"). Under the 2003 Plan, a grant of options to purchase 60,000 shares of common stock will automatically be granted on the date a director is first elected or otherwise validly appointed to the Board with an exercise price per share equal to 100% of the market value of one share on the date of grant. Such options granted will expire ten years after the date of grant and will become exercisable in four equal installments commencing on the date of grant and annually thereafter. In addition to the 60,000 shares of common stock automatically granted upon joining the Board, Directors thereafter receive an annual grant of options to purchase 10,000 shares of common stock at the fair market value as determined on the date of grant, which options will vest on December 31 in the year granted. In addition, each non-management director is reimbursed for ordinary expenses incurred in connection with attendance at such meetings, granted options based on committee assignments consisting of options to purchase 5,000 shares per year for each committee assignment, except for the audit committee participants who each receive annual options to purchase 15,000 shares.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct and Ethics can be found on our website at <http://www.emagin.com/investors>.

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our website, at the address and location specified above and, to the extent required by the listing standards of the American Stock Exchange, by filing a Current Report on Form 8-K with the SEC, disclosing such information.

INFORMATION ABOUT THE EXECUTIVE OFFICERS

The executive officers are elected annually by our Board of Directors and hold office until their successors are elected and duly qualified.

The current executive officers of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Gary Jones	50	President, Chief Executive Officer, and Chairman of the Board of Directors
K.C. Park	67	Executive Vice President, International Operations
Susan K. Jones	53	Chief Strategy and Marketing Officer and Secretary
John Atherly	46	Chief Financial Officer

Executive Compensation

What is the Company's philosophy of executive officer compensation?

The Compensation Committee of the Board of Directors has furnished the following report concerning the philosophy underlying the Company's compensation of executive officers.

Report of the Compensation Committee

The Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

The Company's executive compensation program is designed to attract, retain and motivate executive officers capable of leading the Company to meet its business objectives, to align the interests of executive management with those of the stockholders, and to provide incentives and reward both short and long term performance based on the success of the Company in meeting its development milestones and business objectives. The Compensation Committee places a particular emphasis on variable, performance based components, such as the bonus potential and stock option awards, the value of which could increase or decrease to reflect changes in corporate and individual performances.

Components of Compensation. Each executive officer's compensation package is generally comprised of the following elements: (1) A base salary which is established at levels considered appropriate for the duties and scope of responsibilities of each officer's position; (2) A performance-based annual bonus; (3) Periodic grants of stock options to strengthen the mutuality of interests between the executive officers and the Company's stockholders. Annual or quarterly cash bonuses related to the performance of the Company may be made to executive officers in the sales and marketing functions, and other executive officers in certain other circumstances, for such executive officer's functional area. Executive officers are also eligible to participate in compensation and employee benefits generally available to all employees of the Company, such as health insurance and participation in the eMagin Employee Savings and Protection Plan ("401(k) Plan").

The Compensation Committee believes that this three-part approach best serves the interests of the Company and its stockholders. It enables the Company to meet the requirements of the highly competitive environment in which the Company operates while ensuring that executive officers are compensated in a way that advances both the short and long-term interests of stockholders. Under this approach, compensation for these officers involves a high proportion of

pay that is “at risk” - namely, the annual bonus and stock options. The variable annual bonus is also based, in significant part, on Company performance. Stock options relate a significant portion of long-term remuneration directly to stock price appreciation realized by all of the Company’s stockholders.

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Base Salary. Base salaries for executive officers are set at levels believed by the Committee to be sufficient to attract and retain qualified executive officers based on the stage of development of the Company, the salary levels in effect for comparable positions in similarly situated companies within relevant industries, and internal comparability considerations. Base salaries for the Company's executive officers other than the Chief Executive Officer, as well as changes in such salaries, are based upon recommendations by the Chief Executive Officer, taking into account such factors as competitive industry salaries, a subjective assessment of the nature of the position and the contribution and experience of the officer and the length of the officer's service. All such recommendations are subject to approval or disapproval by the Compensation Committee. Other than provisions provided for in Employment Agreements, changes in base salaries of executives are based on an evaluation of the personal performance of the executive, prevailing market practices, and the performance of the Company as a whole. In determining base salaries, the Compensation Committee not only considers the short-term performance of the Company, but also the success of the executive officers in developing and executing the Company's strategic plans, developing management employees and exercising leadership in the development of the Company.

Cash-Based Incentive Bonus. The Compensation Committee believes that a portion of the total cash compensation for executive officers should be based on the Company's success in meeting its short-term performance objectives and contributions by the executive officers that enable the Company to meet its long-term objectives, and has structured the executive compensation program to reflect this philosophy. This approach creates a direct incentive for executive officers to achieve desired short-term corporate goals that also further the long-term objectives of the Company, and places a significant portion of each executive officer's annual compensation at risk.

Stock Options. The Compensation Committee believes that equity participation is a key component of the Company's executive compensation program. Stock options are awarded by the Compensation Committee to executive officers primarily based on potential contributions to the Company's growth and development and marketplace practices. These awards are designed to retain executive officers and to motivate them to enhance stockholder value by aligning the financial interests of executive officers with those of stockholders. Stock options provide an effective incentive for management to create stockholder value over the long term because the full benefits of the option grants cannot be realized unless an appreciation in the price of the Company's common stock occurs over a number of years.

Variable Bonus. The Compensation Committee may award annual or interim Special Bonuses in the form of cash, stock options, or restricted stock to executive management and employees for achieving certain milestones, progress made in the staff and organizational development of the Company, and advances in the market acceptance and commercialization of the Company's technology.

Compensation of Chief Executive Officer. Mr. Jones's base salary as of December 31, 2004 was \$305,090, the balance of deferred pay in the amount of \$140,798, as well as a reimbursement for relocation expenses of \$46,636. Mr. Jones was paid the balance of his deferred pay through the application of these amounts to the exercise of options. In May 2004, Mr. Jones was granted 1,200,000 shares as part of a company-wide bonus program. In 2004, Mr. Jones invested a higher amount of cash into eMagin Corporation, by exercising options which had been granted in prior years, than was paid to him during 2004 as salary.

Compensation Committee
Dr. Jacob Goldman (Chairman)
Thomas Paulsen

Compensation Committee interlocks and insider participation

None of the members of the Compensation Committee is or has been an officer or employee of the Company or any of its subsidiaries.

Summary compensation table for named executive officers

The following table provides information about the total compensation for services in all capacities to the Company or its subsidiary for the last three fiscal years of those persons who at December 31, 2004, were (i) the Chief Executive Officer of the Company and (ii) the other most highly compensated executive officers of the Company whose total annual salary and bonus exceeded \$100,000 (collectively, the "named executive officers").

Name and Positions		Year	Salary	Bonus		Other Annual Compensation	Long-Term Compensation Awards (Securities Underlying Options)
Gary W. Jones	President, Chief Executive	2004	305,090	0	(1)	46,636	1,200,000
	Officer, Chairman, and	2003	305,090	0		0	516,260
	Director	2002	297,260	0		0	3,589,827
Susan K. Jones	Chief Strategy and Marketing	2004	245,933	0	(2)	0	750,000
	Officer and Secretary	2003	245,933	0		0	403,825
		2002	239,621	0			