SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000.

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-24757

eMagin Corporation

(Exact name of registrant as specified in its charter)

Nevada	88-0378451
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

[LOGO]

2070 Route 52
Hopewell Junction, New York 12533

(Address of principal executive offices) (Zip Code)

(845) 892-1900

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 1, 2001 was approximately $49.8 million, based upon the closing sales price of the Registrant's common stock as quoted on the NASDAQ National Market on such date. The number of shares outstanding of the Registrant's common stock as of March 1, 2001 was 25,069,143

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated in Part III of this Form 10-K or any amendment to this Form 10-K. / /

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Registrant's Proxy Statement for the 2001 Annual Meeting of Stockholders (the "2001 Proxy Statement") (to be filed with the Securities and Exchange Commission on or before May 30, 2001 is incorporated by reference in Part III hereof).

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000
INDEX

FORWARD-LOOKING STATEMENTS

Some of the statements in this report contain forward-looking information. These statements are found in the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." They include statements concerning:

- our business strategy;
- expectations of market and customer response;
- liquidity and capital expenditures;

- future sources of revenues;
- expansion of our proposed product line; and
- trends in industry activity generally;

You can identify these statements by forward-looking words such as "expect," "believe," "goal," "plan," "intend," "estimate," "may" and "will" or similar words. You should be aware that these statements are subject to known and unknown risks, uncertainties and other factors, including those discussed in the section entitled "Risk Factors," that could cause the actual results to differ materially from those suggested by the forward-looking statements. For example, assumptions that could cause actual results to vary materially from future results include, but are not limited to:

- our ability to successfully develop and market our products to customers;
- our ability to generate customer demand for our products in our target markets;
- the development of our target markets and market opportunities;
- our ability to manufacture suitable products at competitive cost;
- market pricing for our products and for competing products;
- the extent of increasing competition;
- technological developments in our target markets and the development of alternate, competing technologies in them; and
- sales of shares by existing shareholders

PART I

ITEM 1: BUSINESS

Overview

We are a leading developer of microdisplays and related imaging technology, which we believe will be a key enabling component for mobile electronic products, including digital cameras, camcorders, entertainment and gaming headsets, hand-held Internet and telecommunications appliances and personal computers. Using our technology, a microdisplay smaller than one inch diagonally can produce an image that appears comparable to that of a computer monitor or a large-screen television.

Our microdisplays are based upon organic light emitting diode (OLED)-on-silicon technology. OLED-on-silicon microdisplays offer a number of advantages over current liquid crystal microdisplays, including increased brightness, lower power requirements, less weight and wider viewing angles. We license fundamental OLED technology from Eastman Kodak and have developed our own technology to create high performance OLED-on-silicon microdisplays and related optical systems. We expect that the integration of our OLED-on-silicon microdisplays into mobile electronic products will result in lower overall system costs to our original equipment manufacturer (OEM) customers. Stanford Resources, an industry market research organization, has recently identified the emergence of OLED technology as a major advance, likely to become a major industry driver. As the first to exploit OLED technology for microdisplays, we believe that we will enjoy a significant advantage in commercializing this new technology. We are the only company to announce and publicly show full-color OLED-on-silicon microdisplays and this achievement has been recognized by the Society for Information Display and Information Display Magazine who designated us as winner of the prestigious Display of the Year Gold Award. We have facilities suitable for producing commercial quantities of our initial

microdisplays, and we expect to begin commercial production during the second half of 2001.

Our Market Opportunity

We expect the increasing demand for high resolution mobile electronic products to drive the growth of the microdisplay industry. According to Display Search, an industry market research organization, the microdisplay market is currently projected to be a $700 million industry in the year 2000 and is expected to grow to $2.3 billion over the next five years. Display Search also projects the overall flat panel display industry will grow from $19.0 billion in 1999 to over $61 billion in 2005.

We believe our microdisplays, when combined with compact optic lenses, will become a key component for a number of mobile electronic products. We are targeting the following applications:

Near-Eye Viewers for Digital Cameras, Camcorders and hand-held Internet and telecommunications appliances

We believe that our microdisplays will enhance near-eye applications in the following products:

- Digital cameras and camcorders, which typically use direct view displays that are low resolution, offer a small visual image, and are difficult to see on sunny days. According to Display Search, 41 million digital cameras and 13 million camcorders are expected to be sold in 2005. Some of these products may incorporate microdisplays as high resolution viewfinders which would permit individuals to see enlarged, high resolution proofs immediately upon taking the picture, giving them the opportunity to retake a poor shot.

- Mobile phones and other hand-held Internet and telecommunications appliances which will enable users to access full web and fax pages, data lists, and maps in a pocket-sized device. According to the Fuji Chimera Research Institute, an industry market research organization, by 2005 the cellular phone and handheld portable digital assistant markets will grow to 655 million units and 20 million units, respectively. Some of these products may eventually incorporate our microdisplays.

For each of these applications, we anticipate that our microdisplays, combined with compact optic lenses, will offer higher resolution, lower power and system cost and achieve larger images than are currently available in the consumer market. As a result, we believe that we can obtain a sizeable share of the market for the display components of these mobile electronic products.

Head-wearable displays

Head-wearable displays incorporate microdisplays mounted in or on eyeglasses, goggles, or simple head bands. Head-wearable displays may block out surroundings for a fully immersive experience, or be designed as "see-through" or "see-around" to the user's surroundings.

Consumer

We believe that our head-wearable display products will enhance the following consumer products:

- Entertainment and gaming video headset systems, which permit individuals to view television (including HDTV), video CDs, DVDs and video games on virtual large screens or stereovision in private without disturbing others. According to DisplaySearch and Fuji Chimera, gaming systems are expected to be a greater than 46 million unit business by 2005. Some of these products may eventually incorporate our microdisplays. According to Display Search, entertainment video system sales (TV and HDTV) are

expected to exceed 166 million units in 2003. Our microdisplays have the potential to displace some of these units.

- Notebook computers, which can use head-wearable devices to reduce power as well as expand the apparent screen size and increase privacy. Display Search, Fuji Chimera, and Frost and Sullivan each estimate annual unit sales of notebook computers to exceed 47 million units by 2005. Current notebook computers do not use microdisplays. Our market can apply not only to new notebook computers, but also as aftermarket attachments to older notebooks still in use. We expect to market our head-wearable displays to be used as peripherals with most notebook computers.

- Handheld personal computers, whose small, direct view screens are often a limitation, but which are now capable of running software applications that could benefit from a larger display. Microdisplays can be built into handheld computers to display more information content on virtual screens. This market is still in its infancy, but is expected to grow significantly.

- Super compact personal computers and personal digital assistants (PDAs) using video headsets as screens can be made possible by high resolution microdisplays. An under one pound pocket-size computer could be created with a fold out keyboard and a headset that provides a near desktop personal computer experience.

We believe that the combination of power efficiency, high resolution, low systems cost, brightness and compact size offered by our OLED-on-silicon microdisplays has not been made available to makers and integrators of existing entertainment and gaming video headset systems, notebook computers and handheld computers. In addition, we believe that our microdisplays will catalyze the growth of new products and applications such as lightweight wearable computer systems.

Military

Military demand for head-wearable displays is currently being met with microdisplay technologies that we believe to be inferior to our OLED-on-silicon head-wearable displays under development. According to Frost and Sullivan, an industry market research organization, the total market for military flat panel displays reached approximately $70 million in 1998 and is projected to grow rapidly through 2005. Frost and Sullivan further projected that the current military microdisplay market of less than $3 million should increase at an overall growth rate in excess of 40 percent, and that microdisplays will penetrate airborne, seaborne, and land applications, providing more mobile and more rugged displays. New uses are being envisioned by the military for individual soldiers, as well as in the areas of simulation, training, operations, maintenance, and logistics in all branches of the military.

Commercial and Industrial

We believe that a wide variety of commercial and industrial markets offer significant opportunities due to increasing demand for instant data accessibility in mobile workplaces. Some examples of microdisplay applications include: 1) immediate access to inventory (parts, tools and equipment availability), 2) instant accessibility to maintenance or construction manuals,

3) routine quality assurance inspection, and 4) real-time viewing of images and data during microsurgery or endoscopy.

Our Products

We believe that our OLED-on-silicon microdisplay and Microviewer(TM) products which are currently under development will provide low-cost, high resolution and full color video viewing, while maintaining miniature physical size, light weight, and power efficiency.

Our initial products include OLED-on-silicon microdisplays, Microviewers(TM) and head-wearable displays. We view our greatest initial opportunities to include those markets where both performance and overall display system cost requirements are not met by current commercially available microdisplays.

We believe that our strategy of offering our products as both separate components and integrated bundles that include microdisplays and lenses will allow us to address the needs of the largest number of potential customers.

Our three major product groups are:

- eMagin OLED-on-silicon microdisplays for integration into consumer and vertical market OEM products.

We plan to serve as a component manufacturer by supplying our OLED-on-silicon microdisplays for those customers who have their own lenses or integrated circuits.

- eMagin Microviewer(TM) modules that incorporate our OLED-on-silicon microdisplay, compact lenses and electronic interfaces for integration into consumer and vertical market OEM products.

We plan to provide a cost-effective and rapid time to market alternative for those customers who want a complete microdisplay and lens assembly to integrate into their end product design. By providing an integrated solution, we plan to allow OEM customers who require optical solutions to avoid incurring expensive design and tooling costs.

- eMagin head-wearable display system designs for non-consumer markets (commercial, industrial, medical, and military). Headsets which incorporate Microviewers(TM) can be a part of larger information systems for OEM customers, or attach directly to existing systems platforms.

We intend to provide our design and manufacturing capabilities to those customers who want a fully integrated, head-wearable solution.

We expect that our product offerings will significantly increase our value-added for our potential customers and increase our revenue and margins. By designing and tooling new microdisplay lenses and compatible solutions at each level required by our various customers, we can reduce cost and time to market for both eMagin and our OEM customers.

OLED-on-Silicon Microdisplays

Our OLED-on-silicon microdisplays represent a new generation of microdisplay technology. Because our microdisplays generate and emit light, they have a wider viewing angle than the competing liquid crystal microdisplays, and because they have the same high brightness at all forward viewing angles, our microdisplays permit a large field-of-view and superior optical image. The wider viewing angle of our display results in the following superior optical characteristics: (1) the user does not need to as accurately position the head-wearable display to the eye, (2) the image will change minimally with eye movement and appear more natural, and (3) the Microviewer(TM) can be placed further from the eye. In addition, our OLED-on-silicon microdisplays can offer faster response times and use less power than liquid crystal microdisplays. Since our displays are built on integrated circuit silicon chips, many computer and video electronic system functions can be built directly into the display, resulting in very compact, integrated systems. We expect this, coupled with our lenses, to result in lower overall system costs.

We have recently completed the development of the first version of our initial customer-oriented microdisplay, which has SVGA+ resolution. We are currently developing a high luminance SXGA integrated circuit. These integrated circuits become microdisplays when OLEDs and color filters are built on top of the integrated circuit. We plan to sell our OLED-on-silicon microdisplays for

use as components by customers who prefer to design and build their own lenses. We also plan to offer OLED processing on our customers' integrated circuits to some OEMs who design their own integrated circuits.

- 0.62-inch Diagonal SVGA+ (Super Video Graphics Array plus 52 added columns of data) for Consumer OEMs. This display has a resolution of 852 x 3 x 600 pixels. The SVGA+ is planned as a full-color or monochrome microdisplay primarily for high-end consumer OEM products such as video/data head-wearable displays, digital cameras, video cameras and game applications. Several specialty medical, industrial, and military product manufacturers have also expressed interest in this product. The initial stage of technological development of this product is now complete and the monochrome version was demonstrated at an industry convention in Japan in October 2000. We are targeting initial sampling of the color version in 2001. This product is designed to interface with most portable personal computers and will be able to display TV, DVD, and HDTV formats.

- 0.77-inch Diagonal SXGA (Super Extended Video Graphics Array) for Industrial, Medical and Military Applications. We are developing an introductory SXGA microdisplay product as a personal computer compatible headset display for military, medical, high-end commercial, and industrial applications. This product will have 1280 x 1024 pixels. This digital video and data interface product is being designed to exhibit a wide dimming range and high luminance for special military applications. We anticipate that the performance features of the SXGA, such as high speed digital video and 256 gray levels, have the potential to serve as a catalyst for the development of new applications.

- 0.24-inch Diagonal QVGA (Quarter Video Graphic Array with 320 x 240 pixels) for Consumer OEM Viewfinder and Game Applications. The integrated circuits for these displays are in the early stages of design and development. We plan to market these microdisplays to lower price point camera and gaming applications. We believe OEM customers could insert these displays into existing products and optical systems with relatively little system redesign effort. We expect these microdisplays to be more cost effective for OEM customers than the current liquid crystal microdisplays since our microdisplays use less power, are simpler to assemble, require minimal added circuitry, and require no separate light sources. We also believe our microdisplays can be more compact and provide high quality viewing to the end consumer without some of the problems exhibited by other technologies, such as limited temperature range, flicker, color sequential breakup, or angular light dependence.

Microviewer(TM) Products

We are developing Microviewer(TM) modules which combine microdisplays with compact optic lenses. Our combination of display and lenses provides large, easy to view images that can be easily adapted to many end products. Our initial display modules are designed to be compatible with a large number of electronics interfaces.

We believe that a complete imaging solution may be a fundamental requirement for many new product categories because of the complementary requirements of illumination, lenses, and electronic interfaces. Once a complete Microviewer(TM) module with an electronics interface is made, the creation of a headset or personal viewer appliance primarily involves issues of styling design, feature selection, and market channels.

We intend to sell our Microviewer(TM) modules to OEMs for integration with their branded products or incorporated into our eGlass(TM) Personal Viewer(TM) head-wearable displays. Many of our potential customers have stated a preference for Microviewers(TM) over microdisplays since Microviewers(TM) incorporate lenses which save OEMs a step in their manufacturing process. We

intend to sample our Microviewer(TM) products concurrently with, or as soon as practicable after, the initial sampling of the base microdisplay.

eGlass(TM) Personal Viewer(TM) Head-Wearable Systems

Personal Viewer head-wearable systems, such as our eGlass(TM) Personal Viewer(TM), give users the ability to work with their hands while simultaneously viewing information or video on the display. Our head-wearable displays are a versatile computer enabler, capable of delivering an image that appears comparable to that of a 19-inch monitor at 22 inches from the eye using a 1.5 inch Microviewer(TM). We believe that Personal Viewer head-wearable displays will fill the increasing demand for instant data accessibility in mobile workplaces. We expect to sell the head-wearable displays primarily to OEM systems and equipment customers. Our initial head-wearable products utilize technologies other than OLED and we may continue to use such technologies in the future.

Our Strategy

Our strategy is to establish and maintain a leadership position in the microdisplay industry by capitalizing on our leadership in both OLED-on-silicon technology and microdisplay lenses technology. We intend to:

Leverage our superior technology to establish a leading market position. As the first to exploit OLED-on-silicon microdisplays, we believe that we enjoy a significant advantage in bringing this technology and its variants to market. We believe that we have consolidated this advantage through our Eastman Kodak license, other strategic relationships, and the development of our own substantial intellectual property portfolio. We have an experienced management team with substantial product development and manufacturing acumen. We plan to maintain and further dedicate significant resources to expand our expertise and to protect our intellectual property. We will also continue our technology development collaborations with third parties. We believe that by leveraging our intellectual property and our design capabilities, we can become a leader in the emerging microdisplay industry.

Develop products for large consumer markets through key relationships with OEMs. We expect our first target markets, entertainment and gaming systems and personal computers, to create the first large-scale opportunities for our OLED-on-silicon microdisplays. Our relationships with OEMs for these products, have allowed us to identify initial microdisplay products to be produced for headsets, followed by other applications such as digital cameras, camcorders and hand-held Internet and telecommunications appliances. We expect digital cameras, camcorders, and hand-held Internet and telecommunications appliances to emerge as significant markets as production costs are reduced.

Increase revenues by completing our OEM qualification cycle. We have been approached by a number of OEMs who are interested in incorporating our SVGA+ microdisplay into their products. We intend to ship evaluation packages to OEMs by mid-2001, which is the first step towards having the SVGA+ qualified for use at the OEM level. The OEM qualification process typically takes 6 to 24 months. We then expect to receive our first volume orders for our microdisplays. We have maintained detailed communications during the design phase of the SVGA+ with several prospective customers. As subsequent products are developed, they will usually go through a similar evaluation cycle.

Optimize manufacturing efficiencies. We intend to outsource certain capital-intensive portions of microdisplay production to minimize both our costs and time to market. We intend to outsource integrated circuit fabrication while retaining the OLED application and OLED sealing processes in-house. We believe that these areas are where we have a core competency and manufacturing expertise. We also believe that by keeping these processes in-house we can protect our proprietary technology and process know-how. This strategy will also enhance our ability to continue to optimize and customize processes and devices to meet customer needs. In the area of lenses and head-wearable displays, we intend to focus on design and development, while working with third parties for the manufacturing and distribution of finished products. Similarly, we intend to outsource volume manufacturing operations for optical systems while

continuing to prototype and use low volume capability in-house. We will continue to outsource part of our manufacturing when we deem it to be appropriate.

Build and maintain strong internal design capabilities. As more circuitry is added to OLED-on-silicon devices, the cost of the end product using the display can be decreased; therefore integrated circuit design capability will become increasingly important to us. To meet these requirements, we intend to continue to support building strong in-house design capabilities. Building and maintaining this capacity will allow us to reduce engineering costs, accelerate the design process and enhance design accuracy to respond to our customers' needs as new markets develop. In addition, we intend to maintain a product design staff capable of rapidly developing prototype products for our customers and strategic partners. Contracting third party design support to meet demand and for specialized design skills is expected to remain a part of our overall long term strategy.

Our Strategic Relationships

Strategic relationships have been an important part of our research and development efforts to date and are an integral part of our plans for commercial product launch. We have forged strategic relationships with major OEMs and strategic suppliers. We believe that strategic relationships allow us to better determine the demands of the marketplace and, as a result, allow us to focus our research and development activities to better meet our customer's requirements. Moreover, we expect to provide microdisplays and Microviewers(TM) to some of these partners, thereby solidifying and utilizing established distribution channels for our products.

Eastman Kodak is a technology partner in OLED development, OLED materials, and a potential future customer for both specialty market display systems and consumer market microdisplays. Eastman Kodak owns equity in eMagin and is an advisor to our Board of Directors. We license Eastman Kodak's OLED technology portfolio.

We have a nonexclusive, worldwide license to use Eastman Kodak patented OLED technology and associated intellectual property in the development, use, manufacture, import and sale of microdisplays. The license covers emissive active matrix microdisplays with a diagonal size of less than 2 inches. Our license expires upon the expiration of the last-to-expire issued Eastman Kodak OLED technology related patent covered under the license agreement. An annual minimum royalty is paid upfront at the beginning of each calendar year and is fully creditable against the royalties we are obligated to pay based on net sales throughout the year. We have also granted to Eastman Kodak a nonexclusive right to patents and associated intellectual property relating to OLED technology developed by us, including the right to sublicense such technology to third parties, in exchange for royalty payments in certain instances. Eastman Kodak and eMagin have also engaged in numerous discussions regarding potential product applications for eMagin's microdisplays by Eastman Kodak.

- We have entered into a joint research and development agreement with IBM to accelerate the development of OLED-on-silicon technology. The OLED-on-silicon microdisplays

developed under the agreement have the potential to be incorporated in future IBM products currently in exploratory or product development stages. Nonexclusive, fully-paid-up license rights are available to us or IBM for any intellectual property developed solely by the other party under the agreement. This technology will be incorporated into microdisplays for possible use in future microdisplay products, including those manufactured by IBM, such as wearable computers and handheld portable Internet appliances. The technology efforts resulted

in the development of a prototype watch computer utilizing the Linux operating system, which features the world's first direct view OLED-on silicon-display. The prototype was publicly demonstrated in January 2001 at the Consumer Electronics Show.

We also have a joint OLED materials development effort with Covion Organic Semiconductors GmbH, a spin-off of Hoechst. We have worked with Honeywell, Kaiser Electronics and Raytheon on a variety of U.S. government research and development proposals and contracts toward the development of displays for military and consumer applications. The US Air Force and US Army are currently providing support under government research and development contracts for microdisplay development with a goal of future procurement. We currently also maintain industry relationships with LG Electronics, Harris, Boeing, Department of Defense Advanced Research Projects Agency (DARPA), NASA, Department of Commerce National Institute of Science and Technology (NIST), Lawrence Livermore National Laboratories, Carnegie Mellon University, and the United States Display Consortium, among others. We intend to establish additional strategic relationships in the future.

Our Technology

We are in the later stages of development of advanced microdisplay components and modules based on OLED-on-silicon technology. We have invested over $34 million in developing OLED-on-silicon and related technologies during the past four years which we believe will allow us to offer our potential customers state-of the art microdisplay solutions. Additionally, approximately $27 million in government funding has been applied toward further establishing our overall technological capability in displays, most of which is directly applicable to our microdisplay technology. We believe that our existing and development-stage display technologies will position us to meet customer requirements for performance and price for a variety of applications that require high resolution, wide field of view, and low power consumption.

OLED-on-Silicon Technology

Scientists working at Eastman Kodak invented OLEDs in the early 1980s. 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 they create their own light, as opposed to liquid crystal displays, which require a separate light source. As a result, OLED devices use less power and can be capable of higher brightness and fuller color than liquid crystal

microdisplays. 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 existing technologies. OLED films may be coated on computer chips, permitting millions of individual low-voltage light sources to be built on silicon integrated circuits to produce single color, white, or full-color display arrays. Many computer and video electronic system functions can be built directly into a silicon integrated circuit upon which the OLED may be coated, resulting in an ultra-compact system. We believe these features, together with the well-established silicon integrated circuit fabrication technology of the semiconductor industry, make our OLED-on-silicon microdisplays attractive for numerous applications.

We believe our technology licensing agreement with Eastman Kodak, coupled with our own intellectual property portfolio, gives us a leadership position in OLED and OLED-on-silicon microdisplay technology. Eastman Kodak provides many of the underlying OLED technologies and we provide additional technology advancements that have enabled us to coat the silicon integrated circuits with OLEDs. We expect OLED-on-silicon to bring features and benefits to the microdisplay market including: high resolution, high luminance, flicker-free imaging, high energy efficiency, thin, compact size, and low system cost. We believe that the combined quality of these features surpasses any other microdisplay technology currently available. OLED-on-silicon technology also permits many additional functions to be integrated into the silicon integrated circuit as part of the OLED microdisplay, making OLED-on-silicon a logical choice for microdisplay system solutions.

We have developed numerous and significant enhancements to OLED technology as well as key silicon circuit designs to effectively incorporate the OLED film on a silicon integrated circuit. For example, we have developed a unique, up-emitting structure for our OLED-on-silicon devices that enables OLED displays to be built on opaque silicon integrated circuits rather than only on glass. Our OLED devices can emit full visible spectrum light that can be isolated with color filters to create full color images. Our microdisplay prototypes have a brightness that can be greater than that of a typical notebook computer and can have a potential lifetime of over 50,000 hours, in certain applications. New materials and device improvements in development offer the future potential for even better performance for brightness, efficiency, and lifespan. Additionally, we have invested considerable work over several years to develop unique electronics control and drive designs for OLED-on-silicon microdisplays.

In addition to our OLED-on-silicon 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.

Advantages of OLED Technology

We believe that our OLED-on-silicon technology provides significant advantages over existing solutions in our targeted microdisplay markets. We believe these key advantages will include:

- Low manufacturing cost;
- Low cost system solutions;
- Wide angle light emission resulting in large apparent screen size;
- Low power consumption for improved battery life and longer system life;
- Long operating life;
- High brightness for improved viewing; and
- High speed performance resulting in clear video images.

Low manufacturing cost. Many OLED-on-silicon microdisplays can be built on an 8-inch silicon wafer using existing automated OLED and color filter processing tools. The level of automation used lowers labor costs. Only a small amount of OLED material is used in OLED-on-silicon microdisplays so that material costs, other than the integrated circuit itself, are small.

Low cost systems solutions. In general, an OEM using OLED-on-silicon microdisplays will not need to purchase and incorporate lighting assemblies, color converter related Applications Specific Integrated Circuits (ASICs), or beam splitter lenses as is the case in liquid crystal microdisplays. Many important display-related system functions can be incorporated into an OLED-on-silicon microdisplay, reducing the size and cost of the system. Lenses for many OLED-on-silicon applications can be made of a single piece of molded plastic which reduces size, weight and assembly cost when compared to the multipiece lens systems used for liquid crystal microdisplays. Because our displays are power efficient, they typically require less power at the system level than other display technologies at a given display size and brightness.

Wide angle light emission resulting in large apparent screen size. OLEDs emit light at most forward directions from each pixel. This permits the display to be placed close to the lens in compact optical systems. It also provides the added benefit of less angular dependence on the image quality relative to pupil and eye position when showing a large field of view, unlike reflective liquid crystal on silicon microdisplays. This results in less eye fatigue and makes it relatively easy to position the imaging systems.

Low power consumption for improved battery life and longer system life. OLEDs can be energy efficient because of their high efficiency light generation. Power efficiency can be high in OLED displays because they require only low voltage switching (2-5 volts is typical, depending on the mode of operation) and less display-external electronics. Furthermore, OLEDs conserve power by powering only those pixels that are on while liquid crystal on silicon requires light at

all pixels all the time. The optical systems used for our OLEDs are highly efficient, permitting over 80% of the light to reach the eye, versus reflective technologies such as liquid crystal on silicon which require multiple beam splitters to get light to the display, and then into the optical system. This results in typically under 25% light throughput efficiency in reflective microdisplay systems.

Long operating life. Most of our potential customers require 5,000 to 10,000 hours of half-life. Half-life references how long it takes the operating display to reach half of its starting brightness. We believe our OLED display technology already exceeds these numbers for most of our consumer product applications.

High brightness for improved viewing. Because OLEDs have electrical characteristics similar to those of semiconductor diodes, they can run at very high brightness with only a moderate increase in voltage. This will enable us to build extremely bright displays using drive voltages of 24 volts or less. This feature can be of great value to military applications, where there is a need to see the computer image overlayed onto brightly lighted real-life backgrounds such as desert sand, water reflections or sunlit clouds. The OLED can be operated over a large luminance range without loss of gray level control, permitting the displays to be used in a range of dark environments to very bright ambient applications. Since military simulation and situation awareness applications, including night vision, typically require large fields of view, the OLED's Lambertian optical characteristics make it an excellent choice.

High speed performance resulting in clear video images. The OLEDs switch much more quickly than liquid crystals or cathode ray tubes (CRTs). This characteristic, coupled with the storage of data at each pixel, results in a stable image and produces no noticeable flicker, even at relatively slow refresh rates. This eliminates visible image smear and makes practicable three-dimensional stereo imaging using a split frame rate. This advantage of our OLED-on-silicon is very important for 3-D stereovision gaming applications.

Because the OLED-on-silicon stores brightness and color information at each pixel, the display can be run with no noticeable flicker and no color sequential breakup. Color sequential breakup occurs in systems such as liquid crystal on silicon and some liquid crystal display microdisplays when red, green and blue frames are sequentially imaged in time for the eye to combine. Since the different color screens occur at different times, movement of the eye due to vibration or just fast pupil movement can create color bands at each dark-light edge, making the image unpleasant to view and making text difficult to read. For example, the liquid crystal on silicon display needs to run at least three times the "normal" frame rate or speed to produce color sequential images, which wastes power and makes for a tough technological challenge as display resolutions increase.

Our OLED-related Technological Milestones

We believe that we have made significant breakthroughs in OLED-on-silicon microdisplay technology and that the following represent key milestones:

Date	Milestone
May 1998	The first publicly displayed OLED-on-silicon integrated circuit video graphics array video (monochrome VGA, 640x480 pixels). This showed that OLED microdisplays could be built directly on silicon integrated circuits.
February 1999	The first publicly displayed up-emitting full color OLED-on-silicon video. (Low resolution QVGA, 320x240 pixels using color filters). This showed that color video capable OLEDs could be built on silicon integrated circuits using color filters.
May 2000	The world's highest efficiency, bright white OLED-on-silicon publicly displayed to date. We also demonstrated the world's highest resolution OLED display publicly displayed to date (1280x1024 pixels) using a new white light emitter in an OLED-on-silicon display. This showed that our OLEDs-on-silicon could provide a good quality bright white image and could generate high resolution moving images with quality gray scale control.
September 2000	The first publicly displayed full-color active matrix OLED-on-silicon microdisplay (VGA resolution, 640x480 pixels). The display used color filters built directly on top of the OLED display and incorporated our white light organic light emitting diodes technology. This showed the first near product-quality color moving images using OLED-on-silicon technology.
October 2000	We previewed the world's highest resolution super video graphics array (SVGA+, 852 x 3 x 600 pixels, over 1.5 million color elements) which was the first active matrix OLED-on-silicon microdisplay designed for consumer applications ever publicly displayed. The display was shown in white monochrome, but the integrated circuit design is color compatible.
January 2001	We demonstrated, with IBM, the world's first direct view OLED-on-silicon microdisplay, which was incorporated into a computer watch which used the Linux operation system. The microdisplay has higher resolution and higher contrast than other similarly sized wrist-worn multi-function displays.

These achievements were recognized by The Society for Information Display (SID) and Information Display Magazine, which designated eMagin Corporation the winner of the prestigious 2000 SID Information Display Magazine Display of the Year Gold Award.

Lens System Technology

We have developed advanced lens technology for microdisplays and head-wearable display systems and hold key patents in these areas. Our lens technology permits our OLED-on-silicon microdisplays to provide large field of view images that can be viewed for extended periods with reduced eye-fatigue. We believe that the key advantages of our lens technology are that it:

- Can be very low cost, with minimal assembly. A one piece, molded plastic optic attached to the microdisplay can serve many consumer end-product markets. Since our process is plastic molding, our per unit production costs are low;
- Allows a compact and lightweight lens system that can greatly magnify a microdisplay to produce a large field of view;
- Can use single-piece molded microdisplay lenses to permit high light throughput making the display image brighter or permitting the use of less power for an acceptable brightness;
- Can be designed to provide focusing to enable users with various eyesight qualities to view images clearly; and
- Can provide focal plane adjustment for simultaneous focusing of computer images and real world objects. For example, this characteristic is beneficial for word processing or spreadsheet applications where a person is typing data in from reference material. This feature can make it easier for older people with moderately poor accommodation to use a head-wearable display as a portable computer viewing accessory.

Complementary System Technology

We have developed a wide range of technologies which complement our core OLED and lens technologies and which we believe will enhance our competitive position in the microdisplay and head-wearable display markets. These include:

- Head-wearable display technology. We have developed ergonomic technologies that make head-wearable displays easier to use in a wide variety of applications. For example, the use of our patented rotatable eyeblocker provides a sharp image without requiring most users to squint. The eyeblocker can also be moved to create an effective see-through appearance. We believe that we have made the lightest weight, high-resolution head-wearable display ever publicly demonstrated.

- Wireless video technology. We have developed power efficient, miniature, video and stereo sound, radio frequency transmitter-receiver technology as part of a government program. This can allow consumers to watch high quality video without wires from

most locations in their home using existing entertainment (e.g., DVD or cable/satellite systems) or data systems. We expect this capability to greatly increase the available market and demand for video and data head-wearable displays and we are considering this technology for use in low cost consumer applications.

Sales and Marketing

We identify companies with products that we believe would benefit from our display components and contact the potential customers directly. OEMs and their end customers then develop designs, technology, and manufacturing processes to enable them to develop products for our target markets. We plan to provide display components and Microviewer(TM) display-optic modules for OEMs to incorporate in their branded products and sell through established distribution channels. We believe successful marketing will require relationships with recognized consumer brand companies. In addition, we market head-wearable displays directly to various vertical market channels, such as medical, industrial, and government customers.

All activities at eMagin evolve by determining and meeting our customers' needs. We began our work on OLED technology over four years ago because we recognized OLED's unique ability to provide a microdisplay solution that would satisfy the market's requirements of low cost, high resolution and complete portability which could not be fully met with alternative technologies. Because our microdisplays are the main functional component that defines many of our end products, we work closely with potential customers to define our products to optimize the final design. In addition, we define and design our products to address common OEM requirements in order to produce optimal designs for multiple customers.

We are developing working relationships with several OEMs that sell or plan to sell microdisplay systems. We design our products to meet individual customer requirements, but look for ways to leverage our design and development costs by incorporating multiple customers' requirements into each product.

We work closely with potential customers to maximize the probability that our microdisplay and lenses products being designed will match the anticipated future needs of the customers. An OEM design cycle is typically between 6 and 24 months, depending on uniqueness of the market and the complexity of the end product. To date, this process has been handled primarily by senior management of the company. We plan to hire additional marketing and customer service engineers to focus on the largest customers. The marketing staff will identify new customer needs, and help insure that the integrated circuit and electronics designers correctly understand the customers' product specification and delivery needs.

Developing customers in the advanced flat-panel display industry involves primarily technical marketing and customer service. We expect that as the market for microdisplays matures and more universal embedded systems become commonplace, the role of traditional OEM component sales will become more important. Our management will continually reassess the success of our marketing and sales methodology to best meet the needs of our customers.

Research and Development

We have strong internal research and development capabilities, with a staff of more than 60 people, including over 15 Ph.D.s, directly engaged in research and development or directly supporting research and development as a majority of their efforts. OLED technology is a relatively new technology that has considerable room for substantial improvements in luminance, life, power efficiency, voltage swing, design compactness, and many other parameters. We also expect that many manufacturing cost reduction opportunities still require new technology developments. Improving the performance, capability and cost of our products will provide an important competitive advantage in our fast moving, high technology marketplace. The development of improved OLED and display device structures, developing and/or evaluating new materials (including the synthesis of new organic molecules), manufacturing equipment and process development, electronics design methodologies and new circuits and the development of new lenses and related systems are all current projects at this time. We determine research and development projects primarily by near-term customer needs. In order to improve customer satisfaction and simultaneously maximize our margins, we must continue to engage in intensive research and development.

External relationships play 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. Some of the organizations we have research and development relationships with are:

- Eastman Kodak;
- IBM;
- Covion Organic Semiconductors GmbH, a developer of OLED materials, and
- certain research institutes in the Ukraine, including the National Academy of Science of Ukraine.

We received a Phase III Small Business Innovation Research grant from the US Air Force, providing $19.6 million to fund research involving the development of high-resolution active matrix organic light emitting diode microdisplays for incorporation into military head-mounted displays. We also work with Eastman Kodak and Honeywell in an Air Force-sponsored dual applications research program to develop ultra-high luminance capable and high temperature compatible OLEDs and with the US Army Night Vision Lab to develop active matrix organic light emitting diode technology.

Manufacturing Facilities

We are co-located at IBM's Microelectronics Division facility located about 70 miles north of New York City in Hopewell Junction, New York. We lease approximately 25,000 square feet of space housing our own equipment for OLED microdisplay fabrication, and for research and development plus additional space for assembly and administrative offices. We believe that our lease agreement with IBM for a 16,300 square foot class 10 clean room space, along with additional, lower level clean room space, and the associated acquisition of substantial amounts of advanced manufacturing equipment at a favorable cost, represents a substantial asset and competitive advantage. Our lease runs until 2004 and we have the option to then renew it on the same terms for an additional five, one-year terms. Facilities services provided by IBM include cleanroom, pure gases, high purity de-ionized water, compressed air, chilled water systems, and waste disposal support. This infrastructure provided by our lease with IBM 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 expect our facility to be capable of producing over 50,000 SVGA+ displays per month after equipment that has been ordered becomes fully operational. We expect this capability to be on line in the first half of 2001 and plan capacity expansions as production orders materialize. Further capacity expansions are planned in 2002 as production orders materialize.

Our manufacturing process for OLED-on-silicon microdisplays can be separated into four major areas: silicon wafer design and integrated circuit wafer fabrication, vacuum deposition for organic layers, sealing process, and color application. After a device is designed by a combination of internal and external designers with customer participation, we outsource wafer fabrication. Upon receipt of completed wafers, OLED thin film processing takes place in our cleanroom using automated vacuum deposition processes which are set up to deposit OLED materials on single crystal silicon substrates. An automated cluster tool provides all OLED fabrication steps in a highly controlled environment that is the centerpiece of our OLED fabrication. We are in the process of automating our color filter processing capability with the majority of this equipment already on our cleanroom floor. In addition to processing and packaging equipment, we possess electrical and optical instrumentation required to characterize the performance of our displays including photometric and color coordinate analysis. We are also equipped for integrated circuit and electronics design and display testing.

We lease additional non-cleanroom facilities for chemical mixing, cleaning, distributed chemical systems, glass polishing, and glass/silicon cutting. We also occupy a research laboratory for organic chemical synthesis where new OLED materials are developed. OLED chemicals are also purified in this laboratory, permitting the company to evaluate new chemicals in pilot production that are not yet available in suitable purity for OLED applications on the market.

Our lenses and system development operation at Virtual Vision lease approximately 11,000 square feet of space in Redmond, Washington. The facilities include design stations, plastics milling and preparations, lenses fabrication, product assembly, and office space. The facilities are well suited for designing and building limited volume prototypes and industrial or

government products. We plan to outsource high volume head-wearable display production to low cost plastics, lenses, and assembly manufacturers.

Intellectual Property

We have developed a significant intellectual property portfolio of patents, trade secrets and know-how, supported by our license from Eastman Kodak and our current patent portfolio.

Our license from Eastman Kodak gives us the right to use, in microdisplays, a portfolio of more than 50 patents in light emitting diode technology, some of which are fundamental. Our agreement with Eastman Kodak provides for perpetual access to the OLED technology for our OLED-on-silicon applications, provided we remain active in the field and meet our contractual requirements to Eastman Kodak.

In our relationship with Eastman Kodak, we share information regarding improvements in the OLED technology and materials generated internally, except where restricted by agreements with other parties. This cooperation permits us to move our research and development forward at a fast pace without needing to dedicate our research and development resources to certain narrow fields. Eastman Kodak and eMagin are also parties to a government research and development program focused on developing ultra-high brightness capable and high temperature compatible OLEDs. Each company is developing certain types of molecules for potential use in different parts of the OLED device structure.

In addition to more than 50 patents licensed from Eastman Kodak, we have a portfolio of our own 55 issued patents and 55 patent applications, which are concentrated in the following areas:

- OLED Materials, Structures, and Processes

- Display Color Processing and Sealing
- Active Matrix Circuit Methodologies and Designs
- Field Emission and General Display Technologies
- Lenses and Tracking (Eye and Head)
- Ergonomics and Industrial Design
- Wearable Computer Interface Methodology

Our patents and patent applications cover a wide range of materials, device structures, processes, and fabrication techniques, such as methods of fabricating full color OLEDs. We believe our patent applications relating to up-emitting structures on opaque substrates such as silicon wafers, which are critical for OLED microdisplays, and applications relating to the hermetic sealing of such structures are particularly important. Our intellectual property also covers a wide range of materials, active matrix circuit techniques and display system designs and lenses, device structures, processes and fabrication methods. We believe that our intellectual property portfolio, coupled with our strategic relationships and accumulated experience in the OLED field gives us an advantage over potential competitors.

Competition

We believe that our key competition will come from liquid crystal on silicon microdisplays (LCOS), also known as reflective liquid crystal displays. While we believe that OLED-on-silicon provides comparatively lower lenses cost, larger apparent image size, reduced electronics cost and complexity, enhanced color, and improved power efficiency advantages over liquid crystal on silicon microdisplays, there is no assurance that these benefits will be realized or that liquid crystal on silicon manufacturers will not suitably improve these parameters. Color liquid crystal on silicon displays are currently being sampled, and may be in production a year or more earlier than color OLED displays, which could have a significant detrimental effect on our market opportunity. Companies pursuing liquid crystal on silicon technology include Colorado Microdisplay, InViso, Microdisplay Corporation, Three-Five Systems, Silicon Display, and Spatial Light among others.

We face competition in the OLED and microdisplay industry from a variety of companies and technologies including Agilent (USA), SEL (Japan), and MicroEmissive Displays (Britain, a start-up company). We may also compete with potential licensees of Universal Display Corporation, Cambridge Display Corporation, and Uniax Corporation. Even though we could potentially license technology from these developers, potential competitors could also obtain licenses and may do so at more favorable royalty rates. However, should they decide to embark on developing microdisplays on silicon, we believe that our progress to date in this area gives us a substantial head start.

Our microdisplays and head-wearable display systems may face competition on a price and performance basis from major manufacturers such as Sony and Seiko Epson. However, these companies use first generation liquid crystal on polysilicon technology which we believe is not as advanced as ours, and therefore, we believe that they may incorporate our technology into their products when it becomes available. Laser scanning systems, including systems being developed by Microvision Corporation, offer high brightness imaging, could eventually be low power, and could potentially compete in high ambient light conditions (sunlight) when a large field of view is not required. We may also face competition from electroluminescent image system companies such as Planar. We believe these technologies face many hurdles to becoming a high image quality, low cost, large area full color, near-eye display.

Employees

As of December 31, 2000, we had a total of 85 employees of which 19 employees were located at Virtual Vision. Of these, 64 employees were engaged in research and development and manufacturing operations, 6 in communications and marketing and 15 in general administration. 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.

CERTAIN TRANSACTIONS

We were originally incorporated as Fashion Dynamics Corporation on January 23, 1996 under the laws of the State of Nevada. For the three years prior to March 2000, Fashion Dynamics Corporation had no active business operations, and sought to acquire an interest in a business with long-term growth potential. On March 16, 2000, Fashion Dynamics Corporation acquired FED Corporation, a Delaware corporation, through the merger of its wholly-owned subsidiary, FED Capital Acquisition Corporation, with and into FED Corporation. In connection with the merger, Fashion Dynamics Corporation changed its name to eMagin Corporation, which was derived from "electronic imaging," and we listed our securities on the American Stock Exchange. FED Corporation, the operating subsidiary of eMagin Corporation (formerly known as Fashion Dynamics Corporation) also changed its name to eMagin Corporation.

Prior to the Merger:

- Fashion Dynamics Corporation had 20,156,400 shares of common stock issued and outstanding.
- FED Corporation had 5,243,192 shares of common stock issued and outstanding.
- FED Corporation had issued warrants to purchase 400,130 shares of its common stock.
- FED Corporation had issued options to purchase 1,671,416 shares of its common stock.

At the effective time of the Merger:

- All outstanding common shares of FED Corporation were converted into common shares of Fashion Dynamics Corporation on a 2:1 basis.
- All outstanding warrants to acquire shares of FED Corporation were converted into warrants to acquire shares of Fashion Dynamics Corporation on a 2:1 basis.
- All outstanding options to acquire shares of FED Corporation were converted into options to acquire shares of Fashion Dynamics Corporation on a 2:1 basis.

Pursuant to rights under the terms of the merger agreement dated March 13, 2000 between the Company, FED Capital Acquisition Corporation and FED Corporation, Citigroup/Travelers Insurance Company designated one board member, Jack Rivkin, Verus International Ltd. designated three board members, Ajmal Khan, Claude Charles and Martin L. Solomon and FED Corporation designated two board members, Gary W. Jones and N. Damodar Reddy.

FED Corporation was originally incorporated in 1992 in Raleigh, North Carolina. Its original purpose was the development and commercialization of flat panel display technology for displaying data, information, and video. As a result of its successful research in the area of field

emission displays, it was awarded approximately $13 million in government contracts to support field emission display technology development.

In 1994, FED Corporation relocated its operations to IBM's East Fishkill, New York campus, and purchased equipment for manufacturing and research and development. In connection with this move, FED Corporation, a Delaware corporation, was incorporated, and FED Corporation, a North Carolina corporation, was merged into the Delaware corporation with the latter being the survivor. In 1996, FED Corporation began work related to the manufacturing and design of microdisplays based upon Eastman Kodak's small molecule, OLED technology in combination with its own intellectual property. In 1997, FED Corporation acquired a license from Eastman Kodak to commercialize this

technology. Since 1997, FED Corporation has applied this OLED technology to produce high resolution microdisplay applications in which a small display is magnified via lenses to produce a larger virtual image.

In April 1998, FED Corporation acquired Virtual Vision for the purpose of accelerating the emergence of a commercial market for video headsets. This acquisition provided FED Corporation with a second core competency in advanced lenses that complements its expertise in semiconductor and display technology. In 1998 FED Corporation established a sales and marketing office in Santa Clara, California.

On March 16, 2000, we entered into a two-year consulting agreement with Verus International Ltd. Verus International Ltd. is a shareholder of eMagin. Additionally, Ajmal Khan, a director of eMagin, also serves as president of Verus International Ltd. Pursuant to the terms of the consulting agreement, we are obligated to pay Verus International Ltd. a fee of $15,000 per month for 24 months from March 16, 2000 in consideration for Verus International Ltd.'s advisory and consulting services offered to us.

RISK FACTORS

Set forth below and elsewhere in this Report and in other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report.

Risks Related To Our Financial Results

We have a history of losses since our inception and expect to incur losses for the foreseeable future.

Since our inception, we have incurred significant losses and had an accumulated loss of approximately $100.7 million as of December 31, 2000. We have not achieved profitability and we expect to continue to incur operating losses for the foreseeable future as we fund operating and capital expenditures in areas such as establishment and expansion of markets, sales and marketing, operating equipment and research and development. We cannot assure investors that we will ever achieve or sustain profitability or that our operating losses will not increase in the future.

We are presently dependent on U.S. government contracts.

The majority of our revenues to date have been derived from research and development contracts with the U.S. federal government. We may continue to rely on such contracts for revenue until volume commercial sales commence. Our government contracts may be terminated by the government at its discretion. We plan to submit proposals for additional development contract funding; however, funding is subject to legislative authorization and even if funds are appropriated such funds may be withdrawn based on changes in government priorities. No assurances can be given that our existing contracts will continue, that we will be successful in obtaining new government contracts, or that programs through which our contracts are funded will continue to be funded beyond the current fiscal year. Our inability to obtain revenues from government contracts could have a material adverse effect on our results of operations.

Risks Related To Our Intellectual Property

We rely on our license agreement with Eastman Kodak for the development of our products, and the termination of this license, Eastman Kodak's licensing of its OLED technology to others for microdisplay applications, could have a material adverse impact on our business.

Our principal products under development utilize OLED technology that we license from Eastman Kodak. We rely upon Eastman Kodak to protect and enforce key patents held by Eastman Kodak, relating to OLED display technology. Eastman Kodak's patents expire over a range of years from 2002 to 2020. Our license with Eastman Kodak could terminate if we fail to perform any material term or covenant under the license agreement. Since our license from Eastman Kodak is non-exclusive, Eastman Kodak could also elect to become a competitor itself or to license its OLED technology for microdisplay applications to others who have

the potential

to compete with us. The occurrence of any of these events could have a material adverse impact on our business.

We may not be successful in protecting our intellectual property and proprietary rights.

We rely on a combination of patents, trade secret protection, licensing agreements and other arrangements to establish and protect our proprietary technologies. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. Patents may not be issued for our current patent applications, third parties may challenge, invalidate or circumvent any patent issued to us, unauthorized parties could obtain and use information that we regard as proprietary despite our efforts to protect our proprietary rights, rights granted under patents issued to us may not afford us any competitive advantage, others may independently develop similar technology or design around our patents, and protection of our intellectual property rights may be limited in certain foreign countries. We may be required to expend significant resources to monitor and police our intellectual property rights.

Any future infringement or other claims or prosecutions related to our intellectual property could have a material adverse effect on our business. Any such claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources, or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all.

Risks Related To The Microdisplay Industry

The commercial success of the microdisplay industry depends on the widespread market acceptance of microdisplay systems products.

The market for microdisplays is emerging. Our success will depend on consumer acceptance of microdisplays as well as the success of the commercialization of the microdisplay market. At present, it is difficult to assess or predict with any assurance the potential size, timing and viability of market opportunities for our technology in this market. The viewfinder microdisplay market sector is well established with entrenched competitors who we must displace.

The microdisplay systems business is intensely competitive.

We do business in intensely competitive markets that are characterized by rapid technological change, changes in market requirements and competition from both other suppliers and our potential OEM customers. Such markets are typically characterized by price erosion. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share. Our ability to compete successfully will depend on a number of factors, both within and outside our control. We expect these factors to include the following:

- our success in designing, manufacturing and delivering expected new products, including those implementing new technologies on a timely basis;

- our ability to address the needs of our customers and the quality of our customer services;
- the quality, performance, reliability, features, ease of use and pricing of our products;
- successful expansion of our manufacturing capabilities;
- our efficiency of production, and ability to manufacture and ship

products on time;

- the rate at which original equipment manufacturing customers incorporate our product solutions into their own products;
- the market acceptance of our customers' products; and
- product or technology introductions by our competitors.

Our competitive position could be damaged if one or more potential OEM customers decide to manufacture their own microdisplays, using OLED or alternate technologies. In addition, our customers may be reluctant to rely on a relatively small company such as eMagin for a critical component. We cannot assure you that we will be able to compete successfully against current and future competition, and the failure to do so would have a materially adverse effect upon our business, operating results and financial condition.

Competing products may get to market sooner than ours.

Our competitors are investing substantial resources in the development and manufacture of microdisplay systems using alternative technologies such as reflective LCDs, LCD-on-Silicon ("LCOS") microdisplays (Colorado Microdisplay, Inc., InViso Inc., The Microdisplay Corporation, Three-Five Systems, Inc., Silicon Display and SpatiaLight, Inc. among others), active matrix electroluminescence and scanning image systems (Planar Systems, Inc. and Microvision Inc.) and transmissive AMLCD (Sony Corporation, Seiko Epson Corporation, and Kopin Corporation). Color LCOS displays are currently in initial production, and may be in volume production a year or more earlier than our microdisplays, which could have a significant detrimental effect on our market opportunity.

Our competitors have many advantages over us.

We expect to experience intense competition from numerous domestic and foreign companies including well-established corporations possessing worldwide manufacturing and production facilities, greater name recognition, larger retail bases and significantly greater financial, technical and marketing resources than us, as well as emerging companies attempting to obtain a share of the various markets for which our microdisplay products have the potential to compete.

Our products are subject to lengthy OEM development periods.

We plan to sell most of our microdisplays to OEMs who will incorporate them into products they sell. OEMs determine during their product development phase whether they will incorporate our products. The time elapsed between initial sampling of our products by OEMs, the custom design of our products to meet specific OEM product requirements, and the ultimate

incorporation of our products into OEM consumer products could be significant. If our products fail to meet our OEM customers' cost, performance or technical requirements or if unexpected technical challenges arise in the integration of our products into OEM consumer products, our operating results could be significantly and adversely affected. Long delays in achieving customer qualification and incorporation of our products could adversely effect our business.

Our products will likely experience rapidly declining unit prices.

In the markets in which we expect to compete, prices of established products tend to decline significantly over time. In order to maintain our profit margins over the long term, we believe that we will need to continuously develop product enhancements and new technologies that will either slow price declines of our products or reduce the cost of producing and delivering our products. While we anticipate many opportunities to reduce production costs over time, there can be no assurance that these cost reduction plans will be successful. We may also attempt to offset the anticipated decrease in our average selling price by introducing new products, increasing our sales volumes or adjusting our product mix. If we fail to do so, our results of operations

would be materially and adversely affected.

Risks Related To Manufacturing

We expect to depend on semiconductor contract manufacturers to supply our silicon integrated circuits and other suppliers of key components, materials and services.

We do not manufacture our silicon integrated circuits on which we incorporate the OLED. Instead, we expect to provide the design layouts to semiconductor contract manufacturers who will manufacture the integrated circuits on silicon wafers. We also expect to depend on suppliers of a variety of other components and services, including circuit boards, graphic integrated circuits, passive components, materials and chemicals, and equipment support. Our inability to obtain sufficient quantities of high quality silicon integrated circuits or other necessary components, materials or services on a timely basis could result in manufacturing delays, increased costs and ultimately in reduced or delayed sales or lost orders which could materially and adversely affect our operating results.

We have not manufactured OLED-on-silicon products in commercial quantities and we do not know if our manufacturing yields will be commercially viable.

In order for us to be successful as a product or component manufacturer, our products must be manufactured to meet high quality standards in commercial quantities at competitive prices. We have not begun commercial production on any of our OLED-based products and we do not currently have the capability to manufacture products in commercial quantities. The manufacture of OLED-on-silicon is new and OLED microdisplays have not been produced in significant volumes. We expect to begin commercial production during 2001 to meet anticipated demand for our products. If we are unable to produce our products in sufficient quantity, we will be unable to attract customers. In addition, we cannot assure you that once we commence volume production we will attain yields that will result in profitable gross margins or that we will

not experience manufacturing problems which could result in delays in delivery of orders or product introductions.

We are dependent on a single manufacturing line.

We initially expect to manufacture our products on a single manufacturing line. If we experience any significant disruption in the operation of our manufacturing facility we may be unable to supply microdisplays to our customers. For this reason, some OEMs may also be reluctant to commit a broad line of products to our microdisplays without a second production facility in place. Interruptions in our manufacturing could be caused by manufacturing equipment problems, the introduction of new equipment into the manufacturing process or delays in the delivery of new manufacturing equipment. Lead time for delivery of manufacturing equipment can be extensive. No assurance can be given that we will not lose potential sales or be unable to meet production orders due to production interruptions in our manufacturing line.

Risks Related To Our Business

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 including Gary W. Jones, our Chief Executive Officer and Susan K. Jones, our Executive Vice President who are married to each other. While we currently maintain a key employee insurance policy on our CEO, we may elect to discontinue this insurance at any time. We also need to recruit additional management personnel in order to expand according to our business plan. The failure to attract and retain additional management personnel could have a material adverse effect on our operating results and financial performance.

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, bonuses, stock options and other fringe benefits offered to employees in order to attract and retain such personnel. The costs of retaining or attracting new personnel may have a materially adverse affect on our business and our operating results. In addition, difficulties in hiring and retaining technical personnel could delay the implementation of our business plan.

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 in order to establish a competitive position and become profitable. Furthermore, we must adopt 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.

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

Our prospects will be significantly affected by our ability to develop strategic alliances with OEMs for incorporation of our OLED-on-silicon 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 at all. Failure to do so would have a material adverse effect on our business.

We will need to obtain additional financing, which may not be available on suitable terms, and as a result our ability to grow may be limited.

Our future liquidity and capital requirements are difficult to predict because they depend on numerous factors, including our success in completing the development of our products, manufacturing and marketing our products and competing technological and market developments. We may not be able to generate sufficient cash from our operations to meet additional working capital requirements, support additional capital expenditures or take advantage of acquisition opportunities. In addition, substantial additional capital may be required in the future to fund product development and product launches. No assurance can be given that additional financing will be available or that, if available, such financing will be obtainable on terms favorable to us or our shareholders. To the extent we raise additional capital by issuing equity or securities convertible into equity, our current shareholders will suffer dilution in ownership. If needed capital is unavailable, our ability to continue to operate and grow our business could be adversely affected.

Our business exposes us to product liability claims.

Our business exposes us to potential product liability claims. Although no such claim has 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 maintain product liability insurance coverage, there can be no assurance 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 can not assure you that potentially harmful exposure will not occur or that we will not be liable to employees as a result.

Our principal stockholders, officers and directors will own a significant voting interest in our voting stock.

A large percentage of our outstanding common stock (approximately 35%) is owned by current and former directors and officers of eMagin Corporation or their affiliates. If these shareholders were to vote together, they could significantly influence the outcome of items that are submitted to a vote of the shareholders including the election of our directors.

We cannot forecast our future performance.

We cannot accurately forecast our revenues because of our limited commercial operating history and because the OLED microdisplay market is only beginning to emerge. We may experience significant fluctuations in our quarterly operating results due to many factors which are outside our control. These factors include:

- fluctuation in demand and orders for our products;
- timing or cost of future supply or equipment deliveries;
- manufacturing capacity and yields;
- variations in product and process development costs;
- expenses or operational disruptions resulting from acquisitions;
- activities of our competitors; and
- general economic conditions.

Due to these factors, we cannot anticipate with any degree of certainty what our revenues, if any, will be in future periods. You have limited historical financial data and operating results with which to evaluate our business and our prospects. As a result, you should consider our prospects in light of the expense, difficulties and delays frequently encountered by early stage companies formed to pursue development of new technologies.

Our share price is likely to be highly volatile which may result in substantial losses for investors. Share price volatility may subject us to securities class action litigation.

Our common stock has experienced substantial price volatility. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies, in particular, and that have often been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions, may materially adversely affect the market price of our common stock in the future. Accordingly, investors in our common stock may experience a decrease in the value of their common stock regardless of our operating performance or prospects.

In addition, the trading price of our common stock could be subject to

wide fluctuations in response to:

- our perceived prospects;
- quarter to quarter variations in our operating results;
- changes in earnings estimates or recommendations by securities analysts and market perceptions of our operating results in relation to those estimates or recommendations;
- changes in market valuation of companies in the microdisplay systems industry;
- announcements of technological innovations or new products by us or our competitors;
- sales of shares by existing shareholders; and
- general conditions in the personal products industries or stock market conditions.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their share price. Those companies, like us, that are involved in rapidly changing technology markets are particularly subject to this risk. This type of litigation, if instituted against us, could result in substantial costs and divert our management's attention and resources, which could cause serious harm to our business.

ITEM 2: PROPERTIES

Our principal executive offices are located at: 2070 Route 52, Hopewell Junction, New York 12533. We lease approximately 45,000 square feet of space, all of which is located in the same industrial park. Approximately 25,000 square feet of space houses our own equipment for OLED microdisplay fabrication, and for research and development plus additional space for assembly operations. Approximately 20,000 square feet of space is used for administrative offices. Our lease runs until 2004 and we have the option to then renew it on the same terms for an additional five, one-year terms.

We occupy 2,200 square feet of office space located in Santa Clara, California under a lease agreement, which expires in January 2002.

Our lenses and system development operation at Virtual Vision lease approximately 11,000 square feet of space in Redmond, Washington. The lease for this facility runs until June 2002.

eMagin Corporation's telephone number is (845) 892-1900. Our website address is www.eMagin.com.

ITEM 3: Legal Proceedings

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders during the fourth quarter of the Fiscal Year covered by this Report.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER

MATTERS

Our common stock has been traded on the American Stock Exchange under the symbol "EMA" since March 17, 2000. From November 18, 1997 to March 16, 2000 our common stock had been quoted on the OTC Bulletin Board under our prior name "Fashion Dynamics Corp." under the symbol "FSHD." Prior to January 2000, there had been no public trading of FSHD. The table below sets forth, for the periods indicated, the high and low closing prices per share of the common stock as reported on the American Stock Exchange and the OTC Bulletin Board. With respect to OTC Bulletin Board quotes, these prices reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions.

	High	Low
2000		
First Quarter (through March 16, 2000)	20.625	5.938
First Quarter (since March 17, 2000)	22.938	19.500
Second Quarter	20.250	8.500
Third Quarter	13.000	7.875
Fourth Quarter	9.750	2.040

As of March 1, 2001, there were 25,069,143 shares of common stock outstanding and 515 holders of record.

We have never declared nor paid cash dividends on our capital stock. We intend to retain future earnings, if any, for the development and operation of our business, and do not anticipate paying any cash dividends in the foreseeable future. Any determination whether to pay dividends will depend on a number of factors, including our results of operations, financial position and capital requirements, general business conditions, restrictions imposed by financing arrangements, if any, legal and regulatory restrictions on the payment of dividends and other factors that our Board of Directors deems relevant. There are no restrictions that currently limit our ability to pay dividends on our common stock.

ITEM 6: SELECTED FINANCIAL DATA

You should read the following selected financial data together with Item 7 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements including accompanying notes, and other financial information, all of which are included elsewhere in this report. The selected financial data for the fiscal years ended December 31, 1996, 1997, 1998, 1999, and 2000 are derived from our consolidated financial statements, which have been audited by Arthur Andersen LLP, independent auditors. The historical results are not necessarily indicative of results to be expected for any future period.

Prior to the acquisition of FED Corporation, Fashion Dynamics Corporation had no active business operations. Management believes that the comparison of eMagin's financial results to that of the operating entity (FED Corporation) provides the most meaningful comparative information to the reader. Accordingly, the comparative information that follows, reflects the operating results of FED Corporation for all periods prior to the merger and it should be read in conjunction with the consolidated financial statements and notes thereto of this Form 10-K.

Fiscal Year Ended December 31,

	1996	1997	1998	1999	2000 (1)
					(unaudited)
Statement of Operations Data:	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Revenues:					
Net Contract Revenues	$224	$3,626	$6,154	$1,895	$3,126
Total revenue	224	3,626	6,154	1,895	3,126
Costs and Expenses:					
Research and Development (net of funding under cost sharing arrangements)	4,323	5,234	10,250	10,171	11,815
Non-cash expense for conversion of debt to common stock	--	--	--	1,917	--
Non-cash stock-based compensation	--	--	--	--	10,319
Amortization of purchase intangibles	--	--	--	--	20,932
Acquired in-process research and development	--	--	--	--	12,820
General and Administrative	2,038	2,015	3,514	5,203	6,145
Loss from operations	(6,137)	(3,623)	(7,610)	(15,396)	(58,905)

	Fiscal Year Ended December 31,				
	1996	1997	1998	1999	2000 (1)
					(unaudited)
Other income (expense)	115	(107)	(122)	(404)	(2,616)
Net loss	(6,022)	(3,730)	(7,732)	(15,800)	(61,521)
Basic and diluted net loss per share	$ (1.12)	$(.69)	$(1.42)	$(6.04)	$(2.95)
Weighted average shares outstanding used in basic and diluted per-share calculation	5,396,729	5,437,537	5,450,293	2,614,743	22,144,904

(1) The summary financial data for the year ended December 31, 2000 represent a pro forma presentation of the results for this period, containing the operating results of eMagin Corporation for the year ended December 31, 2000, with the operating results of FED Corporation for the period from January 1, 2000 through March 15, 2000, in order to present operating results for the year period for comparative purposes.

	As of December 31				
	1996	1997	1998	1999	2000
Balance Sheet Data:			(IN THOUSANDS)		
Working capital (deficit)	$7,810	$ 2,888	$ 3,371	$(3,295)	$ 6,243
Total assets	10,334	6,906	11,163	5,038	62,549
Current maturities of long-term debt	--	--	62	269	313
Short-term debt	--	--	--	2,127	--
Total shareholders' equity	$ 4,718	$ 1,016	$ 4,693	$60	$ 59,184

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion should be read together with our financial statements and the notes to those statements and other financial information appearing elsewhere in this report. Our fiscal year ends December 31.

Overview

We are a leading developer of OLED-on-silicon microdisplays and optics systems. Our fundamental expertise is in combining low cost integrated circuits with flat, emissive display technologies to provide high quality imaging systems in a thin, lightweight format with features we believe to be superior to existing microdisplay technologies. We are planning to begin commercial manufacturing and distribution of our products and technology as components to OEM system manufacturers for near-eye and headset applications in products such as entertainment and gaming headsets, handheld Internet and telecommunication appliances, and wearable computers.

eMagin Corporation was originally incorporated as Fashion Dynamics Corporation on January 23, 1996 under the laws of the State of Nevada. For the three years prior to the merger, Fashion Dynamics Corporation had no active business operations, and sought to acquire an interest in a business with long-term growth potential. On March 16, 2000, Fashion Dynamics Corporation acquired FED Corporation (derived from field emissive device), subsequently changed its name to eMagin Corporation (derived from "electronic imaging") and listed its common stock on the American Stock Exchange under the "EMA" trading symbol.

Under the terms of the merger, Fashion Dynamics Corporation issued approximately 10.5 million shares of its common stock to FED Corporation shareholders and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of a simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Under the purchase method of accounting, the assets and liabilities were recorded based upon their fair values at the date of acquisition as determined by an independent appraisal.

The purchase price was allocated as follows:	(in millions)
Deferred compensation	$13.0
In-process research and development	12.8
Fixed assets	1.2
Other intangible assets	16.9
Goodwill	54.6
	$98.5

We amortize goodwill and other intangible assets acquired over their estimated useful lives of three years. We recorded approximately $20.9 million in amortization expense related to purchased intangible assets for the year ended December 31, 2000. In accordance with Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs", as clarified by Financial Accounting Standards Board Interpretation No. 4, amounts assigned to in-process research and development are to be charged to expense as part of the allocation of purchase price. The amount allocated to acquired in-process research and development related to projects that had not yet reached technological feasibility and that, until completion of development, had no alternative future use. These projects require substantial development and testing prior to reaching technological feasibility and may not develop into products that may be sold by us.

For the three years prior to the acquisition of FED Corporation,

Fashion Dynamics Corporation had no active business operations. Management believes that the comparison of eMagin's financial results to that of the operating entity (FED Corporation) provides the most meaningful comparative information to the reader. Accordingly, the following comparative information reflects the operating results of FED Corporation for all periods prior to the merger and it should be read in conjunction with the consolidated financial statements and notes thereto of this prospectus. The comparison of financial information below for the period ended December 31, 2000 reflects pro forma results of eMagin for the period January 1, 2000 through December 31, 2000 and its predecessor FED Corporation for the period January 1, 2000 to March 15, 2000, on a combined basis, such that the amounts presented and discussed reflect the full year of operations for each period. Reference is made to our consolidated financial statements that are included herein for further detail on the results of eMagin and FED Corporation for their respective periods of ownership.

Our history has been as a developmental stage company. We intend to significantly increase our marketing, sales, and research and development efforts, and expand our operating infrastructure. Most of our operating expenses will be fixed in the near term. If we are unable to generate significant revenues, our net losses in any given quarter could be greater than expected. As a result, you should consider our prospects in light of the early stage of our business in a new and rapidly evolving market.

The following are descriptions of the revenue and expense components of our statement of operations:

Net contract revenues currently represent revenues mostly from contracts funded by U.S. government programs. We have historically earned revenues from certain of our research and development activities under both fixed-price contracts and cost-type contracts, including some cost-plus-fee contracts. Revenues relating to fixed-price contracts are generally recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Revenues on cost-plus-fee contracts include costs incurred plus a portion of estimated fees or profit based on the relationship of costs and the allocation of allowable indirect costs as defined by each contract. The amount of revenues earned is dependent upon the execution of new government contracts, which may not be predictable or consistent from period to period because

of variations in government funds allocated to research and development in our field of technology.

Research and development expenses represent salaries, development materials, external contracts, equipment lease and depreciation expense, electronics, rent, utilities and costs associated with operating our manufacturing facility. These costs are expensed as incurred. We have received cost sharing awards from certain U.S. government agencies to fund certain research and development. Funding from this type of contract is recognized as a reduction in research and development operating expenses during the period in which the services are performed and related direct expenses are incurred. As of December 31, 2000, the remaining amounts to be incurred and billed on these active "cost sharing" contracts totaled $1.4 million.

Non-cash stock-based compensation expense represents expenses associated with stock option grants to our officers and employees at below fair market value as additional compensation for their services and to induce them to lock-up their options for a longer time then would normally be specified under the Company's standard option grant. Deferred compensation is amortized over the remaining vesting period of the underlying options. The expense also represents warrant grants with exercise prices below fair market value to security holders of eMagin for a reduced number of warrants to induce them to lock-up prior to the merger.

Amortization of purchased intangibles represents the cost of amortization of the value of goodwill and other acquired intangible assets. The purchased intangibles are amortized over their expected useful lives of three years on a straight-line basis.

Selling, general and administrative expenses principally represent the

cost of salaries and fees for professional services, legal fees incurred in connection with patent filings and related matters, depreciation and amortization, and other administrative expenses as well as expenses associated with marketing.

Basic and diluted net loss per common share is computed by using the weighted average number of shares of common stock outstanding during the period, restated for the effect of the merger upon the number of shares outstanding in the current year, and for the presentation of the net loss per share for the predecessor, a stock split effected during 1999. No common stock equivalents have been included in the computation of weighted average shares outstanding, as their effect would be anti-dilutive.

Results of Operations

Comparison of our financial results for the years ended December 31, 1998, 1999 and 2000.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Revenues

Revenues increased to $3.1 million for the year ended December 31, 2000 from $1.9 million for the year ended December 31, 1999, representing an increase of 63%. This increase was due primarily to the recognition of revenue from certain government contracts relating to head-wearable displays.

Research and Development Expenses

Gross research and development expenses increased to $13.3 million for the year ended December 31, 2000 from $11.2 million for the year ended December 31, 1999, representing a 17.7% increase. Of these amounts, we received $1.5 million in cost sharing from the U.S. government for the year ended December 31, 2000, and $1.1 million for the year ended December 31, 1999. The $2.1 million increase in gross expenses for the year ended December 31, 2000 reflects the additional costs associated with personnel costs, equipment leases, depreciation, and material costs resulting from increased research and development activities and equipment additions at our manufacturing facility.

Non-Cash Stock-Based Compensation Expense

Non-cash stock-based compensation expense was $10.3 million for the year ended December 31, 2000 versus no activity for the year ended December 31, 1999. The activity, for the year ended December 31, 2000, reflects the amortization of deferred compensation costs related to the issuance of stock options, warrants issued and re-priced warrants and options at below fair market values in the first quarter of 2000.

Amortization of Purchased Intangibles

Amortization of purchased intangibles expense increased to $20.9 million for the year ended December 31, 2000 from $0.8 million for the year ended December 31, 1999. The $20.1 million increase in amortization for purchased intangibles expense is the result of non-cash charges related to the amortization of goodwill and intangibles created by the merger.

Acquired In-Process Research and Development

In connection with the merger, we allocated $12.8 million of the purchase price to acquired in-process research and development. Accordingly, these costs were expensed during the year upon finalization of a third party appraisal.

General and Administrative Expenses

General and administrative expenses increased to $6.1 million for the

year ended December 31, 2000 from $5.2 million for the year ended December 31, 1999, representing a 17.3% increase. The $0.9 million increase in selling, general and administrative expenses was due primarily to increases in marketing activity, personnel costs, travel and patent filings.

Other Income (Expense)

Other expenses increased to $2.6 million for the year ended December 31, 2000 from $0.4 million for the year ended December 31, 1999. The increase of $2.2 million was due primarily to the amortization of the debt discount from the beneficial conversion of a bridge loan entered into by us prior to the merger.

Net Loss Per Common Share

The following provides a reconciliation of information used in calculating the per share amounts for the year ended December 31, 2000 and December 31, 1999. The 1999 loss attributable to common shareholders includes an effect of an induced conversion of convertible preferred stock that took place in June 1999.

	2000	1999
Loss attributable to common shareholders		
Net loss	$(61,521,866)	$(15,800,245)
Effect of induced conversion of Convertible Preferred Stock		(7,576,862)
Loss attributable to common shareholders	$(61,521,866)	$(23,377,107)
Weighted average shares outstanding	22,144,904	2,614,743
Basic and diluted loss per common share	$ (2.78)	$ (8.94)

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Revenues

Revenues decreased to $1.9 million in 1999 from $6.2 million in 1998, representing a 69% decrease. Revenues were lower due to reduced U.S. government contract volume as a contract was completed during 1999 and the type of U.S. government contract we engaged in changed primarily to "cost sharing" from "cost-plus-fee" contracts.

Research and Development Expenses

Gross research and development expenses decreased to $11.3 million in 1999 from $11.5 million in 1998, representing a 2% decrease. The $0.2 million decrease for 1999 reflects lower direct material costs. Of these amounts, we received $1.1 million in cost sharing from the U.S. government for 1999 and $1.3 million in 1998. As of December 31, 1999, the remaining amounts to be incurred and billed on four active "cost sharing" contracts totaled $3.3 million.

Non-Cash Expense For Conversion of Debt to Common Stock

In 1999, we recorded a non-cash charge of $1.9 million for the conversion of $4.0 million of senior debt to 1,449,276 shares of common stock, which reflected a benefit the bondholder received at the date of conversion of the fair market value of the common stock over the contractual conversion price.

General and Administrative Expenses

General and administrative expenses increased to $5.2 million in 1999 from $3.5 million in 1998, representing a 49% increase. The increase in general and administrative expenses was primarily related to the establishment of a sales and marketing office in Santa Clara, California and additional patent filings.

Other Income (Expense)

Other expenses increased to $0.4 million in 1999 from $0.1 million in 1998. The increase of $0.3 million was due to higher interest rates and a lower cash balance than in 1998.

Net Loss

The net loss increased to $15.8 million in 1999 from $7.7 million in 1998.

Liquidity and Capital Resources

Our cash requirements depend on numerous factors, including completion of our product development activities, ability to commercialize our products, market acceptance of our products and other factors. We expect to devote substantial capital resources to continue our development programs directed at commercializing our products in our target markets, hire and train

additional staff, expand our research and development activities, develop and expand our manufacturing capacity and begin production activities. Through December 31, 2000 we have incurred accumulated losses of approximately $100.7 million since our inception and we anticipate incurring significant losses as we fund our growth. Since inception we have financed our operations through private placements of equity securities, research and development contracts and borrowings. As of December 31, 2000, we had $7.4 million in cash and cash equivalents.

Net cash used in operating activities was $14.5 million for the year ended December 31, 2000. Cash used in operating activities resulted primarily from our net loss partially offset by increases from non-cash charges. Cash used in operating activities for 1999 was $8.6 million and $6.3 million in 1998 resulting primarily from operating losses.

Net cash provided by investing activities was $0.4 million for the year ended December 31, 2000. This represented net cash acquired in acquisition of $1.2 million, offset by capital expenditures of $0.8 million. Net cash used by investing activities in 1999 was $0.3 million primarily for capital expenditures. In 1998, net cash used in investing activities was $1.2 million primarily for capital expenditures and the acquisition of Virtual Vision.

Net cash provided by financing activities was $22.0 million for the year ended December 31, 2000, and consisted primarily of proceeds from the issuance of common stock in a private placement of $22.5 million offset by decreases in short term debt and capital leases of $0.5 million. Cash provided by financing activities for 1999 was $7.7 million primarily from the issuance of short-term debt and the issuance of preferred stock. In June of 1999, all of the preferred shareholders voted to convert their shares into common stock at conversion rates that ranged between 2.8 to 5.5 shares of common stock for each share of preferred stock. Cash provided by financing activities for 1998 was $6.9 million primarily from the issuance of preferred stock.

We currently anticipate that we will continue to experience significant growth in our operating expenses for the foreseeable future and that our operating expenses will be a material use of our cash resources.

We expect that we will need to raise additional equity or debt financing in the future. There can be no assurance that additional equity or debt financing will be available on acceptable terms or at all. If we are unable to obtain additional capital, we may be required to reduce the scope of our

planned product development, selling and marketing activities and expansion of our manufacturing facilities, which would have a material adverse effect on our business, financial condition and operating results. In the event that we raise additional equity financing, further dilution to investors could result.

Unaudited Quarterly Results of Operations for the Years Ended December 31, 2000 and 1999

	Year ended December 31, 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$12,266	$828,394	$1,011,763	$705,164
Net loss	(2,257,156)	(11,004,386)	(24,036,650)	(10,868,625)
Net loss per share Basic and diluted	$(0.17)	$(0.44)	$(0.96)	$(0.43)

	Year ended December 31, 1999			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ --	$ --	$ --	$ --
Net loss	(326)	(3,327)	(2,027)	(12,772)
Net loss per share Basic and diluted	$ --	$(0.0005)	$(0.0003)	$(0.002)

Recent Accounting Pronouncements

In June 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No.138 "Accounting for Certain Derivative Instrument and Certain Hedging Activities," which amends the accounting and reporting standards of SFAS No. 133, "Accounting for Derivatives and Hedging Activities." The Statement establishes accounting and reporting standards for derivative instruments (including certain derivative instruments embedded in other contracts) and for hedging activities. SFAS No. 133 is effective for all fiscal quarters beginning after June 15, 2000 (as amended by SFAS No. 137) and will not require retroactive restatement of prior-period financial statements. Management believes the adoption of SFAS 133 will not have a material impact on the Company.

In March 2000, the FASB issued interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation-An Interpretation of APB Opinion No. 25." Among other things, FIN 44 clarifies the definition of employees, the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequences of various modifications to the terms of a previously fixed stock option or award and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain of its conclusions cover specific events that occurred after either December 15, 1998 or January 12, 2000. The Company adopted the provisions of FIN 44 as of July 1, 2000.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of the Company's cash equivalents and investment securities are at fixed interest rates, and as such, the fair market value of these instruments is affected by changes in market interest rates. As of December 31, 2000, all of the Company's cash equivalents and investment securities mature within one year. Accordingly, we believe that the market risk

arising from our holdings of these financial instruments is immaterial. However, in the future, we may invest in securities with maturities of more than one year, which may carry greater interest rate risk. Presently, all of the Company's research and development contract payments are made in U. S. dollars and, consequently, we believe we have no direct foreign currency exchange rate risk. However, in the future, we may enter into contracts in foreign currencies, which may subject the Company to foreign exchange rate risk. We do not have any derivative instruments and do not presently engage in hedging transactions.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENT INDEX

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of eMagin Corporation:

We have audited the accompanying consolidated balance sheet of eMagin Corporation (a Nevada corporation in the development stage; see Note 1) and subsidiaries as of December 31, 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended and the related consolidated statements of operations, shareholder's equity and cash flows for the period from inception (January 23, 1996) to December 31, 2000. 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 audit. We did not audit the financial statements of eMagin Corporation for the period from inception to December 31, 1999. Such statements are included in the cumulative from inception to December 31, 2000 totals of the statements of operations, shareholder's equity and cash flows and reflect a total net loss of less than a percent of the related cumulative totals. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to amounts from the period from inception to December 31, 1999, included in the cumulative totals, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of eMagin Corporation and subsidiaries as of December 31, 2000, and the results of their operations and their cash flows for the year then ended, and for the period from inception to December 31, 2000, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's recurring losses from operations since inception raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

New York, New York
February 28, 2001

Arthur Andersen LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors
FASHION DYNAMICS CORP.:

I have audited the accompanying Balance Sheets of FASHION DYNAMICS CORP. (A Development Stage Company), as of December 31, 1999 and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FASHION DYNAMICS CORP. (A Development Stage Company), as of December 31, 1999 and the results of its operations and cash flows for the years ended December 31, 1999 and December 31, 1998, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has no established source of revenue. This raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is described in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Barry L. Friedman
Certified Public Accountant
1582 Tulita Drive
Las Vegas, NV 89123
702-361-8414

Las Vegas, Nevada
February 17, 2000

Where Barry L. Friedman, CPA is not the accountant for the most recent fiscal year ended, and he has audited one or more of the prior fiscal years. Barry L. Friedman was a sole practitioner in his capacity as the Company's previous auditor. This represents a copy of Barry L. Freidmans's previously issued report, which he is unable to reissue in accordance with Rule 2-02(a) of Regulation S-X due to his untimely demise, and hence, no longer in practice.

eMAGIN CORPORATION (formerly FASHION DYNAMICS CORP.)
(a development stage company)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 1999

ASSETS	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,367,257	--
Contract receivables	825,733	--
Costs and estimated profits in excess of billings on contracts in progress	627,347	--
Prepaid expenses and other current assets	665,222	--
Total current assets	9,485,559	--
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	1,268,304	--
GOODWILL AND PURCHASED INTANGIBLES, net	51,689,938	--
OTHER LONG-TERM ASSETS	105,394	--
Total assets	$ 62,549,195	$ --
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 161,025	$ --
Accrued payroll	1,376,888	--
Accrued expenses	935,746	--
Advance payments on contracts to be completed	311,812	--
Current portion of long-term debt	313,074	--
Other current liabilities	144,000	--
Total current liabilities	3,242,545	--
LONG-TERM DEBT	122,984	--
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS' EQUITY:		
Common stock, $.001 par value, 40,000,000 and 25,000,000 shares authorized, 25,069,143 and 20,156,400 shares issued and outstanding, respectively	25,069	20,156
Additional paid-in capital	116,622,811	10,844
Deferred compensation	(9,266,397)	--
Deficit accumulated during the development stage	(48,197,817)	(31,000)
Total shareholders' equity	59,183,666	--
Total liabilities and shareholders' equity	$ 62,549,195	$ --

The accompanying notes are an integral part of these consolidated balance sheets.

eMAGIN CORPORATION (FORMERLY FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999, 1998 and for the period from inception (January 23, 1996) to December 31, 2000

	2000	1999	1998	Period from Inception (January 23, 1996) to December 31, 2000
CONTRACT REVENUES	$ 2,557,587	$ --	$ --	$ 2,557,587
Total revenues	2,557,587	--	--	2,557,587
COSTS AND EXPENSES:				
Research and development, net of funding under cost sharing arrangements of $1,328,121, $0, and $0, respectively	9,634,948	--	--	9,634,948
General and administrative	5,149,513	18,452	3,477	5,180,513
Amortization of purchased intangibles	20,932,320	--	--	20,932,320
Acquired in-process research and development	12,820,000	--	--	12,820,000
Non-cash stock based compensation	2,539,828	--	--	2,539,828
Total costs and expenses, net	51,076,609	18,452	3,477	51,107,609
OTHER INCOME, NET	352,205	--	--	352,205
Net loss	$(48,166,817)	$ (18,452)	$ (3,477)	$(48,197,817)
Basic and diluted loss per share	$ (2.18)	$ (0.00)	$ (0.00)	
Basic and diluted weighted average shares outstanding	22,144,904	21,156,400	21,156,400	

The accompanying notes are an integral part of these consolidated statements.

eMAGIN CORPORATION (FORMERLY FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION (JANUARY 23, 1996) to DECEMBER 31, 1996 and FOR EACH of the FOUR YEARS ENDED DECEMBER 31, 1997, 1998, 1999, AND 2000

	Number of Shares	$0.001 par value	Additional Paid- in Capital	Deferred Compensation	Deficit Accumulated during the development stage	Total
February 6, 1996 Issued for Cash	600,000	600	5,400	-	-	6,000
Net loss, January 23, 1996 (Inception) to December 31, 1996	-	-	-	-	(3,803)	(3,803)
Balance, December 31, 1996	600,000	600	5,400	-	(3,803)	2,197
Issuance of Common Stock for cash	500,000	500	24,500	-	-	25,000
Net loss	-	-	-	-	(5,268)	(5,268)
Balance, December 31, 1997	1,100 000	1,100	29,900	-	(9,071)	21,929
Effect of stock split	5,500,000	5,500	(5,500)	-	-	-
Net loss	-	-	-	-	(3,477)	(3,477)
Balance, December 31, 1998	6,600,000	6,600	24,400	-	(12,548)	18,452
Effect of stock split	13,556,400	13,556	(13,556)	-	-	-
Net loss	-	-	-	-	(18,452)	(18,452)
Balance, December 31, 1999	20,156,400	20,156	10,844	-	(31,000)	-
Sale of common stock in private placement, net of issuance costs of $1,000,000	3,464,547	3,465	23,246,535	-	-	23,250,000
Common stock issued and options and warrants exchanged in connection with FED acquisition	10,486,386	10,486	92,354,461	-	-	92,364,947
Cancellation of existing shareholders common stock	(9,356,018))	(9,356)	9,356	-	-	-
Issuance of common stock related to exercise of warrant	1,080	1	1,835	-	-	1,836
Issuance of common stock for services	316,748	317	2,216,919	-	-	2,217,236
Deferred compensation	-	-	-	(13,023,364)	-	(13,023,364)
Amortization of deferred compensation	-	-	-	2,539,828	-	2,539,828
Reversal of deferred compensation balance for forfeited stock options	-	-	(1,217,139)	1,217,139	-	-
Net Loss	-	-	-	-	(48,166,817)	(48,166,817)
Balance, December 31, 2000	25,069,143	$25,069	$116,622,811	$(9,266,397)	$(48,197,817)	$59,183,666

The accompanying notes are an integral part of these consolidated statements.

eMAGIN CORPORATION (formerly FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999, 1998 and for the period from inception (January 23, 1996) to December 31, 2000

	2000	1999	1998	Period from Inception (January 23, 1996) to December 31, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:				

Net loss	$(48,166,817)	$ (18,452)	$ (3,477)	$(48,197,817)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	21,488,686	$ 94	587	21,489,521
Loss on sale of assets	98,548	2,103	--	97,713
Non-cash charge for stock based compensation	2,539,828	--	--	2,539,828
Acquired in-process research and development	12,820,000	--	--	12,820,000
Changes in operating assets and liabilities:				
Contract receivables	(693,770)	--	--	(693,770)
Costs and estimated profits in excess of billings on contracts in progress	(7,783)	--	--	(7,783)
Prepaid expenses and other current assets	(359,506)	--	--	(359,506)
Deposits and other assets	(94,943)	--	--	(94,943)
Advanced payment on contracts to be completed	311,812	--	--	311,812
Current portion long term debt	--	--	--	--
A/P, accrued expenses and other current liabilities	51,039	--	--	51,039
Net cash used in operating activities	(12,012,906)	(16,255)	(2,890)	(12,043,906)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of equipment	(803,033)	--	--	(803,033)
Net cash acquired in acquistion	1,239,162	--	--	1,239,162
Net cash provided by investing activities	436,129	--	--	436,129

The accompanying notes are an integral part of these consolidated statements.

eMAGIN CORPORATION (formerly FASHION DYNAMICS CORP.)
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999, 1998 and for the period from inception (January 23, 1996) to December 31, 2000

	2000	1999	1998	Period from Inception (January 23, 1996) to December 31, 2000
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from sales of common stock, net of issuance costs	21,250,000	--	--	21,281,000
Re-payments of bridge loan and obligations under capital lease	(2,305,966)	--	--	(2,305,966)
Net cash provided by financing activities	18,944,034	--	--	18,975,034

Net increase/(decrease) in cash and cash equivalents	7,367,257	(16,255)	(2,890)	7,367,257
CASH AND CASH EQUIVALENTS, beginning of period	--	16,255	19,145	--
CASH AND CASH EQUIVALENTS, end of period	$ 7,367,257	$ --	$ 16,255	$ 7,367,257
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$ 244,208	$ --	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Acquisition of business:				
Total purchase price	$ 98,465,622	$ --	$ --	
Fair value of assets, net of cash acquired	38,807,454	--		
Net liabilities assumed	3,816,747	--	--	
Excess purchase price over net assets acquired	54,602,259	--	--	
Net cash acquired in acquisition	$ 1,239,162	$ --	$ --	

The accompanying notes are an integral part of these consolidated statements.

eMAGIN CORPORATION (Formerly Fashion Dynamics Corp.)
Notes to the Consolidated Financial Statements

Note 1 - NATURE OF BUSINESS AND DEVELOPMENT STAGE RISKS

Fashion Dynamics Corporation (FDC) was organized January 23, 1996, under the laws of the State of Nevada. FDC had no active business operations other than to acquire an interest in a business. On March 16, 2000, FDC acquired FED Corporation (the Merger). FED was a developer and manufacturer of optical systems and micro displays for use in the electronics industry. FED's wholly owned subsidiary, Virtual Vision, develops and markets micro display systems and optics technology for commercial, industrial and military applications. The merged company changed its name to eMagin Corporation (the Company or eMagin) (Note 2). Following the Merger, the business conducted by the Company is the business conducted by FED prior to the Merger.

The Company continues to be a development stage company, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises", as it continues to devote substantially all of its efforts to establishing a new business, and it has not yet commenced its planned principal operations. Revenues earned by the Company to date are primarily related to research and development type contracts and are not related to the Company's planned principal operations of commercialization of products using organic light emitting diode (OLED) technology.

Since its inception, FED Corporation entered into research and development cost-sharing arrangements, as well as research and development contracts, with several government agencies and private industry. To date, such arrangements have provided total funding of approximately $36.6 million, including $32.6 million by FED prior to the Merger, through cost sharing and contract revenues. Certain of these arrangements continue through 2001 and may provide for approximately $9.3 million of additional funding. Such funding is subject to, among other factors, satisfactory progress on projects and available government funding.

Through December 31, 2000, the Company had incurred development stage losses totaling approximately $48.2 million. Prior to the acquisition of FED by FDC, FED incurred developmental stage losses totaling approximately $52.5 million. At December 31, 2000, the Company had approximately $8.2 million of cash, cash equivalents and contract receivables to fund short-term working capital requirements. At February 28, 2001, such amounts totaled approximately $4.6 million. The Company's ability to continue as a going concern and its future success is dependent upon its ability to raise capital in the near future to continue: (1) its research and development efforts, (2) hiring and retaining key employees, (3) satisfaction of its commitments and (4) the successful development and marketing of its products.

The Company believes that it will be able to secure financing in the near term and that the proceeds from such financings, along with its remaining cash resources at December 31, 2000, will be sufficient to fund the Company's operations into the first quarter of 2002 and beyond. However, there can be no assurance that sufficient capital will be available, when required, to permit the Company to realize its plan, or even if such capital is available, that it will be at terms favorable to the Company. Additionally, there can be no assurance that the Company's efforts to produce a commercially viable product will be successful, or that the Company will generate sufficient revenues to provide positive cash flows from operations.

These and other factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue in existence.

Note 2 - FED ACQUISITION

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock to FED shareholders, and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants exchanged, based on the difference between the fair value and the exercise price of said equity instruments and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the fair value of assets acquired and liabilities assumed as follows: $13 million to deferred compensation for the portion of value of options and warrants exchanged relating to unvested securities, $18.0 million to identifiable intangible assets as valued by an independent appraisal, and $54.6 million to goodwill. Such goodwill is being amortized over a three year period. The Company recorded approximately $20.9 million in amortization expense related to purchased intangible assets for the year ended December 31, 2000. In accordance with Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs", as clarified by Financial Accounting Standards Board Interpretation No. 4, amounts assigned to in-process research and development will be charged to expense as part of the allocation of purchase price. Accordingly, the Company recognized a charge of approximately $12.8 million associated with the write-off of acquired in-process research and technology, which is included in the accompanying statements of operations for the year ended December 31, 2000.

The following information reflects pro forma statements of operations data for the years ended December 31, 2000 and 1999, assuming the acquisition of FED occurred at the beginning of each year presented:

	Year Ended December 31 (unaudited)	
	2000	1999
Revenues	$3,126,000	$1,895,000
Net loss	$(65,305,000)	$(32,294,000)

Net loss per share	$(2.95)	$(1.25)

These pro forma results have been presented for comparative purposes only and do not purport to be indicative of the results that would have actually resulted had the acquisition occurred at the beginning of the years presented.

Note 3 - SIGNIFICANT ACCOUNTING POLICIES

Revenue and Cost Recognition

The Company has historically earned revenues from certain of its research and development activities under both firm fixed-price contracts and cost-type contracts, including some cost-plus-fee contract,. Revenues relating to firm fixed-price contracts are generally recognized on the percentage-of-completion

method of accounting as costs are incurred (cost-to-cost basis). Revenues on cost-plus-fee contracts include costs incurred plus a portion of estimated fees or profits based on the relationship of costs incurred to total estimated costs. Contract costs include all direct material and labor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates.

As of December 31, 2000, the Company had received advance payments on contracts to be completed of $311,812. Through December 31, 2000, the Company has recognized revenues of approximately $450,000 under this agreement in the accompanying consolidated financial statements.

Costs and Estimated Profits in Excess of Billings on Contracts in Progress

The Company records costs and estimated profits in excess of billings on contracts in progress as an asset on its balance sheet to the extent such costs, and related profits, if any, have been incurred under outstanding contracts and are expected to be collected.

The components of costs and estimated profits in excess of billings on contracts in progress as of December 31, 2000 were as follows:

	2000
Total costs incurred and estimated profits	$ 3,408,000
Less amounts billed	2,781,000
Costs and estimated profits in excess of billings on contracts in progress	$ 627,000

Research and Development/Cost Sharing Arrangements

To date, activities of the Company include the performance of research and development under cooperative agreements with United States Government agencies. Current industry practices provide that costs and related funding under such agreements be accounted for as incurred and earned.

The Company has entered into three cost sharing arrangements with an agency of the U.S. Government and two commercial customers. The Company has incurred research and development costs and earned funding under these agreements as of December 31, 2000 as follows:

	2000
Unfunded research and development	$ 8,053,000
Research and development costs	2,909,000
Funding received	(1,328,000)
	$ 9,634,000

The Company may incur approximately $3,396,000 of additional costs on these efforts. If such costs, as defined, are incurred, the government is obligated to

reimburse the Company $1,439,000 of such amounts.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of overnight commercial paper and are stated at cost, which approximates market, and are considered available for sale.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", requires the classification of debt and equity securities based on whether the securities will be held to maturity, are considered trading securities or are available-for-sale. Classification within these categories may require the securities to be reported at their fair market value with unrealized gains and losses included either in current earnings or reported as a separate component of shareholders' equity, depending on the ultimate classification.

Comprehensive Income

The Company complies with the provisions of SFAS No. 130, "Reporting Comprehensive Income", which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distributions to owners, for the period in which they are recognized. Comprehensive income is the total of net income and all other non-owner changes in equity (or other comprehensive income) such as unrealized gains or losses on securities classified as available-for-sale, foreign currency translation adjustments and minimum pension liability adjustments. Comprehensive income must be reported on the face of the annual financial statements. The Company's operations did not give rise to any material items includable in comprehensive income, which were not already in net income for the years ended December 31, 2000, 1999 and 1998. Accordingly, the Company's comprehensive income is the same as its net income or loss for all periods presented.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation on equipment is calculated using the straight-line method of depreciation over their estimated useful lives. 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.

Goodwill and Other Intangible Assets

Identifiable intangible assets resulting from the acquisition of FED and the excess purchase price over net assets acquired ("goodwill") are being amortized on a straight-line basis over their respective estimated useful lives of approximately three years. As of December 31, 2000, goodwill and other intangible assets were comprised of the following (in millions):

Goodwill	$54.6
Purchased identifiable intangibles	18.0
Less: Accumulated amortization	20.9
Goodwill and other intangible assets, net	$51.7

The Company recorded approximately $20.9 million in amortization expense related to purchased intangible assets for the year ended December 31, 2000.

Long-Lived Assets

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed", establishes financial accounting and reporting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill. SFAS No. 121 requires, among other things, that assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be realizable considering, among other factors, expected future undiscounted operating cash flows of the related asset.

Income Taxes

Deferred income taxes are recorded by applying enacted statutory tax rates to temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. At December 31, 2000 and 1999, the Company has net deferred tax assets of approximately $19.8 million and $14.3 million respectively, primarily resulting from the future tax benefit of net operating loss carry forwards discussed below. Such net deferred tax assets are fully offset by valuation allowances because of the uncertainty as to their future to be realized.

At December 31, 2000, the Company has net operating loss carry forwards totaling approximately $49.7 million, inclusive of the net operating losses acquired as a result of the acquisition of FED, which expire through 2020, available to offset future federal taxable income. Pursuant to Section 382 of the Internal Revenue Code, the usage of a portion of these net operating loss carry forwards is limited due to changes in ownership that have occurred.

Principles of Consolidation

The accompanying consolidated financial statements of eMagin Corporation include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which the Company exercises control. Inter-company transactions and balances are eliminated.

Loss per Common Share

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

Stock-Based Compensation

The Company accounts for stock-based compensation issued to employees in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company, as permitted, elected not to adopt the financial reporting requirements of SFAS No. 123, "Accounting for Stock-Based Compensation", for stock-based compensation granted to employees. Accordingly, the Company has disclosed in the notes to the financial statements the pro forma net loss for the periods presented as if the fair-value-based method was used in accordance with the provisions of SFAS No. 123.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In June 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No.138 "Accounting for Certain Derivative Instrument and Certain Hedging Activities," which amends the accounting and reporting standards of SFAS No. 133, "Accounting for Derivatives and Hedging Activities." The Statement establishes accounting and reporting standards for derivative instruments (including certain derivative instruments embedded in other contracts) and for hedging activities. SFAS No. 133 is effective for all fiscal quarters beginning after June 15, 2000 (as amended by SFAS No. 137) and will not require retroactive restatement of prior-period financial statements. Management believes the adoption of SFAS 133 will not have a material impact on the Company.

In March 2000, the FASB issued interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation-An Interpretation of APB Opinion No. 25." Among other things, FIN 44 clarifies the definition of employees, the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequences of various modifications to the terms of a previously fixed stock option or award and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain of its conclusions cover specific events that occurred after either December 15, 1998 or January 12, 2000. The Company adopted the provisions of FIN 44 as of July 1, 2000.

Note 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements and their estimated lives are as follows at December 31, 2000 and 1999:

	Useful Lives	2000	1999
Computer equipment and software	3	$ 230,000	$ --
Lab and factory equipment	3	1,230,000	--
Furniture, fixtures and office equipment	10	108,000	--
Leasehold improvements	Life of lease	256,000	--
		1,824,000	--
Less- Accumulated depreciation and amortization		556,000	--
		$ 1,268,000	$ --

Depreciation and amortization expense of equipment and leasehold improvements for the period December 31, 2000 was approximately $580,000. For the year ended December 31, 1999 these amounts were not material.

Additionally, from time to time, the Company makes deposits on certain equipment that may ultimately be purchased by a financing company and leased to the Company. Amounts paid by the Company for such deposits totaled approximately $403,000 at December 31, 2000.

Note 5 - BRIDGE LOANS

In September 1999, FED entered into two $1,000,000 convertible bridge loans for an aggregate of $2,000,000. Each loan bore interest at 8% and matured in June 2000. The loans were convertible at the option of the holder into shares of the Company's common stock at a purchase price equal to the per share value of the private placement completed in connection with the Merger. These liabilities were assumed by the Company in the Merger. The entire outstanding balance of the bridge loans, including accrued and unpaid interest was repaid in June 2000.

Note 6 - LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2000 and 1999:

	2000	1999
Notes payable (a)	$ 346,000	$ --
Capital leases (b)	40,000	--
Other long term debt	50,000	--
	436,000	
Less- Current portion	313,000	--
	$ 123,000	$ --

a. In May 1999, FED entered into a $625,000 three-year loan agreement collateralized by its fixed assets. Such liability was assumed in the Merger. The remaining principal balance is $221,870 at December 31, 2000 with payments due through 2002 at an interest rate of 13.88%.

In June 1999, FED entered into a $155,000 five-year uncollateralized loan agreement. Such liability was assumed in the Merger. The proceeds were used to finance a leasehold improvement. The principal balance is $124,067 at December 31, 2000 with payments due through 2004 at an interest rate of 18%.

b. The Company is party to a capital lease for certain equipment with aggregate remaining principal balance totaling $40,121 at December 31, 2000, excluding interest, due through 2003 at an interest rate of 7.27%.

Maturity of debt for years ending December 31 are as follows:

2001	$ 313,000
2002	48,000
2003	49,000
2004	26,000
	$ 436,000

Note 7 - SHAREHOLDERS' EQUITY

The authorized common stock of the Company consists of 40,000,000 shares with a par value of $0.001 per share.

On March 30, 1998 the Company forward split its common stock 6:1 increasing the number of issued and outstanding common shares from 1,100,000 to 6,600,000.

On December 31, 1999 the Company forward split its common stock 3.054:1, increasing the number of issued and outstanding common stock from 6,600,000 to 20,156,400.

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

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the terms of the agreement, FDC issued approximately 10.5 million shares of its common stock to FED shareholders, and issued approximately 3.9 million options and warrants in exchange for existing FED options and warrants. The total purchase price of the transaction was approximately $98.5 million, including $73.4 million of value relating to the shares issued (at a fair value of $7 per share, the value of the simultaneous private placement transaction of similar securities), $20.9 million of value relating to the options and warrants

exchanged, based on the difference between the fair value and the exercise price of said equity instruments and $3.8 million of assumed liabilities. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the fair value of assets acquired and liabilities assumed as follows: $13 million to deferred compensation for the portion of value of options and warrants exchanged relating to unvested securities, $18.0 million to identifiable intangible assets as valued by an independent appraisal, and $54.6 million to goodwill. Such goodwill is being amortized over a three year period. The Company recorded approximately $20.9 million in amortization expense related to purchased intangible assets for the year ended December 31, 2000. In accordance with Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs", as clarified by Financial Accounting Standards Board Interpretation No. 4, amounts assigned to in-process research and development will be charged to expense as part of the allocation of purchase price. Accordingly, the Company recognized a charge of approximately $12.8 million associated with the write-off of acquired in-process research and technology, which is included in the accompanying statements of operations for the year ended December 31, 2000.

Note 8 - STOCK-BASED COMPENSATION PLANS

Stock Option Plan

In 1994, FED established the 1994 Stock Plan (the "1994 Plan"), which has been assumed by the Company. The plan provided for the granting of options to purchase an aggregate of 1,286,000 shares of the Common Stock to employees and consultants of FED Corporation.

In 2000, FED established the 2000 Stock Option Plan (the "2000 Plan"), which has been assumed by the Company. An aggregate 3,900,000 shares of the Company's common stock are reserved for issuance under the 2000 Plan. The Plan permits the granting of options and stock purchase rights to employees and consultants of the Company. The 2000 Plan allows for the grant of incentive stock options meeting

the requirements of Section 422 of the Internal Revenue Code of 1986 (the "Code") or non-statutory stock options which are not intended to meet the requirements Section 422 of the Code.

Vesting terms of the options range from immediate vesting of all options to a ratable vesting period of 5-1/2 years. Option activity for the year ended December 31, 2000 is summarized as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 1999	--	$ --
Options assumed	3,342,832	2.01
Options granted, post-merger	329,200	9.30
Options exercised	-	-
Options canceled	(281,842)	1.77
Outstanding at December 31, 2000	3,390,190	2.72
Exercisable at December 31, 2000	1,311,093	$2.36
Weighted average fair value of options granted	$ 2.72	

At December 31, 2000, there were 1,257,296 shares available for grant under the 2000 Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 4.48%; no expected dividend yield, expected lives of 1.6 years from date of vesting; and expected stock price volatility of .75. Exercise prices for outstanding options at December 31, 2000 range from $1.72 - $19.50.

The following table summarizes information about stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2000	Weighted Average Exercisable Price
$ 1.72 - $1.72	2,962,496	7.4 years	$ 1.72	1,218,362	$ 1.72
5.25 - 10.50	361,530	8.87 years	9.09	49,115	9.50
11.06- 19.50	66,164	4.3 years	12.52	43,616	12.25
	3,390,190			1,311,093	

The Company has elected to continue to account for stock-based compensation under APB Opinion No. 25, under which no compensation expense has been recognized for stock options granted to employees at fair market value. Had compensation expense for stock options granted under the 2000 Plan and 1994 Plan been determined based on fair value at the grant dates, the Company's net loss and net loss per share for 2000 would have been increased to the pro forma amounts shown below.

Net loss:	2000
As reported	$ (48,167,000)
Pro forma.....	$ (49,470,000)
Net loss per share:	
As reported	$ (2.18)
Pro forma per share.....	$ (2.23)

For the years ended December 31, 1999 and 1998, pro forma net loss and net loss per share would have been the same as net loss and net loss per share.

Warrants

At December 31, 2000, warrants to purchase 800,260 shares of common stock are issued and outstanding at exercise prices ranging from $1.72 to $26.25.

Note 9 - COMMITMENTS AND CONTINGENCIES

Royalty Payments

The Company is obligated to make minimum annual royalty payments to a corporation commencing January 1, 2001. Under this agreement, the Company must pay to the corporation the greater of a minimum royalty per year, or a certain percentage of net sales of certain products, which percentages are defined in the agreement with the corporation. The percentages are on a sliding scale depending on the amount of sales generated. Any minimum royalties paid may be credited against the amounts due based on the percentage of sales.

License and Technology Agreement

In March 1997, FED entered into a technology agreement with a corporation to permit potential commercialization of small-format OLED displays. This agreement was transferred to the Company in the Merger. The Company is dependent upon its license agreement with the corporation for the development and commercialization of its currently planned OLED products. Payments were made under evaluation and

license agreements based on the achievement of certain milestones in phases of the agreements. No payments were required or made for the year ended December 31, 2000. Based on a remaining optional phase of the current agreement the Company may elect to make additional payments in 2001, if the optional phase of the agreement is pursued.

Operating Leases

The Company leases certain office facilities and office, lab and factory equipment under operating leases expiring through January 2004. Certain leases provide for payments of monthly operating expenses. The approximate future minimum lease payments are as follows:

Year ending December 31:	
2001	$4,198,000
2002	2,585,000
2003	1,891,000
2004	383,000
	$9,057,000

For the year ended December 31, 2000, rent expense was approximately $2,251,000.

Litigation

The Company may, from time to time, be a party to litigation arising during the normal course of business. The Company is currently not a party to any litigation.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of FED Corporation:

We have audited the accompanying consolidated balance sheet of FED Corporation (a Delaware corporation in the development stage; see Note 1) and subsidiary as of December 31, 1999 and the related consolidated statements of operations and cash flows for the years ended December 31, 1999 and 1998 and for the period from inception (January 6, 1992) to December 31, 1999 and the consolidated statements of shareholders' equity for the period from inception (January 6, 1992) to December 31, 1992 and for each of the seven years ended December 31, 1999. 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 auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of FED Corporation and subsidiary as of December 31, 1999 and the results of their operations and their cash flows for the years ended December 31, 1999 and 1998 and for the period from inception (January 6, 1992) to December 31, 1999, in conformity with accounting principles generally accepted in the United States.

New York, New York
February 14, 2000 (except for Note 3,
as to which the date is March 15, 2000)

Arthur Andersen LLP

FED CORPORATION (PREDECESSOR)
(a development stage company)

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1999

ASSETS	1999
CURRENT ASSETS:	
Cash and cash equivalents	$ 718,468
Contract receivables	73,304
Costs and estimated profits in excess of billings on contracts in progress	221,723
Prepaid expenses and other current assets	127,658
Total current assets	1,141,153
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	1,214,680
GOODWILL, net	2,671,390
DEPOSITS AND OTHER ASSETS	10,451
Total assets	$ 5,037,674
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable, deferred revenue, accrued expenses, and other current liabilities	$ 2,041,100
Short-term debt	2,126,700
Current portion of long-term debt	268,675
Total current liabilities	4,436,475
LONG-TERM DEBT	541,578
COMMITMENTS (Note 10)	
SHAREHOLDERS' EQUITY:	
Preferred stock, $.01 par value, 5,000,000 shares authorized, 0 shares issued and outstanding	--
Common stock, $.01 par value, 50,000,000 shares authorized, 4,380,589 shares issued and outstanding	43,806
Additional paid-in capital	47,254,459
Deficit accumulated during the development stage	(47,238,644)
Total shareholders' equity	59,621
Total liabilities and shareholders' equity	$ 5,037,674

The accompanying notes are an integral part of this consolidated balance sheet.

FED CORPORATION (PREDECESSOR)
(a development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE PERIOD FROM JANUARY 1, 2000 TO MARCH 15, 2000, THE YEARS ENDED
DECEMBER 31, 1999 AND 1998, AND THE PERIOD FROM INCEPTION (JANUARY 6, 1992)
TO DECEMBER 31, 1999

	Period from January 1, 2000 to March 15, 2000 (unaudited)	Year Ended December 31, 1999	Year Ended December 31, 1998	Period From Inception (January 6, 1992) to December 31, 1999
CONTRACT REVENUES	$ 568,484	$ 1,895,426	$ 6,154,123	$ 14,565,353
Total revenues	568,484	1,895,426	6,154,123	14,565,353
COSTS AND EXPENSES:				
Research and development, net of funding under cost sharing arrangements of $175,000, $1,148,166, $1,263,448 and respectively	2,180,519	10,171,387	10,250,010	36,323,800
General and administrative	995,750	5,203,201	3,513,662	15,069,058
Non-cash stock based compensation	7,778,850	--	--	--
Non-cash charge for induced conversion of debt	--	1,917,391	--	1,917,391
Total costs and expenses, net	10,955,119	17,291,979	13,763,672	53,310,249
OTHER (EXPENSE):	(2,968,414)	(403,692)	(121,878)	(403,102)
Net loss	$(13,355,049)	$(15,800,245)	$ (7,731,427)	$(39,147,998)

The accompanying notes are an integral part of these consolidated statements.

=======

FED CORPORATION AND SUBSIDIARY
(a development stage company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION (JANUARY 6, 1992) TO DECEMBER 31, 1992
AND FOR EACH OF THE SEVEN YEARS ENDED DECEMBER 31, 1999

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
BALANCE, at inception (January 6, 1992)	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Sale of common stock to founder	-	-	-	-	-	-	-	-	-	-

Sale of common stock to a trust controlled by founder	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-
BALANCE, December 31, 1992	-	-	-	-	-	-	-	-	-	-
Sale of common stock to founder	-	-	-	-	-	-	-	-	-	-
Sale of common stock to founder's family	-	-	-	-	-	-	-	-	-	-
Repurchase of common stock from founder	-	-	-	-	-	-	-	-	-	-
Sale of Series A preferred stock	2,000	20	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-
BALANCE, December 31, 1993	2,000	20	-	-	-	-	-	-	-	-
Sale of common stock to founder	-	-	-	-	-	-	-	-	-	-
Sale of Series B preferred stock	-	-	10,154	102	-	-	-	-	-	-
Sales of common stock	-	-	-	-	-	-	-	-	-	-
Sales of common stock to employees	-	-	-	-	-	-	-	-	-	-
Sales of common stock to employees and ESPP	-	-	-	-	-	-	-	-	-	-
Stock purchases receivable from employees	-	-	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-
BALANCE, December 31, 1994	2,000	20	10,154	102	-	-	-	-	-	-
Sales of common stock, net of stock issuance costs	-	-	-	-	-	-	-	-	-	-

	Series F Preferred Stock		Series G Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
BALANCE, at inception (January 6, 1992)	-	$ -	-	$ -	-	$ -
Sale of common stock to founder	-	-	-	-	5,000,000	50,000
Sale of common stock to a trust controlled by founder	-	-	-	-	161,000	1,610
Net loss for the period	-	-	-	-	-	-
BALANCE, December 31, 1992	-	-	-	-	5,161,000	51,610
Sale of common stock to founder	-	-	-	-	76,000	760
Sale of common stock to founder's family	-	-	-	-	13,333	133
Repurchase of common stock from founder	-	-	-	-	(1,600,000)	(16,000)

Sale of Series A preferred stock	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-
BALANCE, December 31, 1993	-	-	-	-	3,650,333	36,503
Sale of common stock to founder	-	-	-	-	100	1
Sale of Series B preferred stock	-	-	-	-	-	-
Sales of common stock	-	-	-	-	1,047,132	10,471
Sales of common stock to employees	-	-	-	-	88,469	885
Sales of common stock to employees and ESPP	-	-	-	-	34,041	340
Stock purchases receivable from employees	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-
BALANCE, December 31, 1994	-	-	-	-	4,820,075	48,200
Sales of common stock, net of stock issuance costs	-	-	-	-	460,000	4,600

	Additional Paid-in Capital	Accumulated During the Development Stage	Subscription Receivables	Total
BALANCE, at inception (January 6, 1992)	$ -	$ -	$ -	$ -
Sale of common stock to founder	(45,000)	-	-	5,000
Sale of common stock to a trust controlled by founder	119,140	-	-	120,750
Net loss for the period	-	(59,116)	-	(59,116)
BALANCE, December 31, 1992	74,140	(59,116)	-	66,634
Sale of common stock to founder	61,490	-	-	62,250
Sale of common stock to founder's family	19,867	-	-	20,000
Repurchase of common stock from founder	14,400	-	-	(1,600)
Sale of Series A preferred stock	199,980	-	-	200,000

Dividends on Series A preferred stock	-	(3,750)	-	(3,750)
Net loss for the period	-	(408,738)	-	(408,738)
BALANCE, December 31, 1993	369,877	(471,604)	-	(65,204)
Sale of common stock to founder	-	-	-	1
Sale of Series B preferred stock	40,514	-	-	40,616
Sales of common stock	1,591,786	-	-	1,602,257
Sales of common stock to employees	133,110	-	-	133,995
Sales of common stock to employees and ESPP	43,062	-	-	43,402
Stock purchases receivable from employees	-	-	(26,810)	(26,810)
Dividends on Series A preferred stock	-	(18,000)	-	(18,000)
Net loss for the period	-	(1,404,862)	-	(1,404,862)
BALANCE, December 31, 1994	2,178,349	(1,894,466)	(26,810)	305,395
Sales of common stock, net of stock issuance costs	1,107,723	-	-	1,112,323

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Common stock issued to Director as finder's fee	-	-	-	-	-	-	-	-	-	-
Sales of common stock to employees and ESPP	-	-	-	-	-	-	-	-	-	-
Receipt of stock purchases receivable from employees	-	-	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-
BALANCE, December 31, 1995	2,000	20	10,154	102	-	-	-	-	-	-
Conversion of Series A preferred stock	131,333	1,313	-	-	-	-	-	-	-	-
Common stock issued as finder's fee	-	-	-	-	-	-	-	-	-	-
Sale of common stock to employees and ESPP	-	-	-	-	-	-	-	-	-	-
Exercise of stock options	-	-	-	-	-	-	-	-	-	-
Sale of Series B preferred stock	-	-	1,562	16	-	-	-	-	-	-
Sale of Series C preferred stock	-	-	-	-	1,156,832	11,568	-	-	-	-

Sale of Series D preferred stock	-	-	-	-	-	-	887,304	8,873	-	-
Sale of Series E preferred stock	-	-	-	-	-	-	-	-	874,093	8,741
Costs of private placement of preferred stock	-	-	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-
BALANCE, December 31, 1996	133,333	1,333	11,716	118	1,156,832	11,568	887,304	8,873	874,093	8,741

	Series F Preferred Stock		Series G Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Common stock issued to Director as finder's fee	-	-	-	-	61,560	616
Sales of common stock to employees and ESPP	-	-	-	-	33,295	333
Receipt of stock purchases receivable from employees	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-
BALANCE, December 31, 1995	-	-	-	-	5,374,930	53,749
Conversion of Series A preferred stock	-	-	-	-	-	-
Common stock issued as finder's fee	-	-	-	-	11,500	115
Sale of common stock to employees and ESPP	-	-	-	-	42,447	424
Exercise of stock options	-	-	-	-	3,125	31
Sale of Series B preferred stock	-	-	-	-	-	-
Sale of Series C preferred stock	-	-	-	-	-	-
Sale of Series D preferred stock	-	-	-	-	-	-
Sale of Series E preferred stock	-	-	-	-	-	-
Costs of private placement of preferred stock	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-

BALANCE, December 31, 1996	-	-	-	-	5,432,002	54,319

	Additional Paid-in Capital	Accumulated During the Development Stage	Subscription Receivables	Total
Common stock issued to Director as finder's fee	153,284	-	-	153,900
Sales of common stock to employees and ESPP	70,420	-	-	70,753
Receipt of stock purchases receivable from employees	-	-	26,810	26,810
Dividends on Series A preferred stock	-	(18,000)	-	(18,000)
Net loss for the period	-	(3,992,375)	-	(3,992,375)
BALANCE, December 31, 1995	3,509,776	(5,904,841)	-	(2,341,194)
Conversion of Series A preferred stock	(1,313)	-	-	-
Common stock issued as finder's fee	(115)	-	-	-
Sale of common stock to employees and ESPP	105,249	-	-	105,673
Exercise of stock options	4,656	-	-	4,687
Sale of Series B preferred stock	6,234	-	-	6,250
Sale of Series C preferred stock	4,037,344	-	-	4,048,912
Sale of Series D preferred stock	4,427,646	-	-	4,436,519
Sale of Series E preferred stock	5,235,817	-	-	5,244,558
Costs of private placement of preferred stock	(747,292)	-	-	(747,292)
Dividends on Series A preferred stock	-	(18,000)	-	(18,000)
Net loss for the period	-	(6,021,867)	-	(6,021,867)
BALANCE, December 31, 1996	16,578,002	(11,944,708)	-	4,718,246

FED CORPORATION AND SUBSIDIARY
(a development stage company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Continued)
FOR THE PERIOD FROM INCEPTION (JANUARY 6, 1992) TO DECEMBER 31, 1992
AND FOR EACH OF THE SEVEN YEARS ENDED DECEMBER 31, 1999

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
BALANCE, December 31, 1996	133,333	$1,333	11,716	$ 118	1,156,832	$ 11,568	887,304	$ 8,873	874,093	$ 8,741
Sale of common stock to employees and ESPP	-	-	-	-	-	-	-	-	-	-
Costs of private placement of preferred stock	-	-	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-
BALANCE, December 31, 1997	133,333	1,333	11,716	118	1,156,832	11,568	887,304	8,873	874,093	8,741
Sale of common stock to employees and ESPP	-	-	-	-	-	-	-	-	-	-
Exercise of stock options	-	-	-	-	-	-	-	-	-	-
Sale of Series B preferred stock	-	-	2,778	28	-	-	-	-	-	-
Sale of Series F preferred stock	-	-	-	-	-	-	-	-	-	-
Costs of private placement of preferred stock	-	-	-	-	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-
BALANCE, December 31, 1998	133,333	1,333	14,494	146	1,156,832	11,568	887,304	8,873	874,093	8,741
Sale of Series G preferred stock and resulting accretion to liquidation value	-	-	-	-	-	-	-	-	-	-

	Series F Preferred Stock		Series G Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
					ables	
BALANCE, December 31, 1996	-	$ -	-	$ -	5,432,002	$ 54,319

Sale of common stock to employees and ESPP	-	-	-	-	12,728	128
Costs of private placement of preferred stock	-	-	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-
BALANCE, December 31, 1997	-	-	-	-	5,444,730	54,447
Sale of common stock to employees and ESPP	-	-	-	-	8,396	84
Exercise of stock options	-	-	-	-	5,000	50
Sale of Series B preferred stock	-	-	-	-	-	-
Sale of Series F preferred stock	1,915,471	19,155	-	-	-	-
Costs of private placement of preferred stock	7,300	73	-	-	-	-
Dividends on Series A preferred stock	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-
BALANCE, December 31, 1998	1,922,771	19,228	-	-	5,458,126	54,581
Sale of Series G preferred stock and resulting accretion to liquidation value	-	-	681,446	6,814	-	-

	Additional Paid-in Capital	Accumulated During the Development Stage	Subscription Receivables	Total
BALANCE, December				

31, 1996	$16,578,002	$(11,944,708)	-	$ 4,718,246
Sale of common stock to employees and ESPP	53,246	-	-	53,374
Costs of private placement of preferred stock	(7,830)	-	-	(7,830)
Dividends on Series A preferred stock	-	(18,000)	-	(18,000)
Net loss for the period	-	(3,729,568)	-	(3,729,568)
BALANCE, December 31, 1997	16,623,418	(15,692,276)	-	1,016,222
Sale of common stock to employees and ESPP	38,311	-	-	38,395
Exercise of stock options	12,450	-	-	12,500
Sale of Series B preferred stock	16,638	-	-	16,666
Sale of Series F preferred stock	11,473,671	-	-	11,492,826
Costs of private placement of preferred stock	(134,538)	-	-	(134,465)
Dividends on Series A preferred stock	-	(18,000)	-	(18,000)
Net loss for the period		(7,731,427)	-	(7,731,427)
BALANCE, December 31, 1998	28,029,950	(23,441,703)	-	4,692,717
Sale of Series G preferred stock and resulting accretion to liquidation value	4,702,817	(957,185)	-	3,752,446

(a development stage company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Continued)
FOR THE PERIOD FROM INCEPTION (JANUARY 6, 1992) TO DECEMBER 31, 1992
AND FOR EACH OF THE SEVEN YEARS ENDED DECEMBER 31, 1999

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Dividend on Series A preferred stock	-	-	-	-	-	-	-	-	-	-
Induced conversion of preferred stock and debt to common stock	(133,333)	(1,333)	(14,494)	(146)	(1,156,832)	(11,568)	(887,304)	(8,873)	(874,093)	(8,741)
Sale of common stock to employees and ESPP	-	-	-	-	-	-	-	-	-	-
Common stock options and warrants issued to nonemployees	-	-	-	-	-	-	-	-	-	-
Beneficial conversion features upon conversion of debt	-	-	-	-	-	-	-	-	-	-
Stock split (Note 8)	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-
BALANCE, December 31, 1999	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -

	Series F Preferred Stock		Series G Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Dividend on Series A preferred stock	-	-	-	-	-	-
Induced conversion of preferred stock and debt to common stock	(1,922,771)	(19,228)	(681,446)	(6,814)	25,197,312	251,973
Sale of common stock to employees and ESPP	-	-	-	-	8,326	83
Common stock options and warrants issued to nonemployees	-	-	-	-	-	-
Beneficial						

conversion features upon conversion of debt	-	-	-	-	-	-
Stock split (Note 8)	-	-	-	-	(26,283,178)	(262,831)
Net loss for the period	-	-	-	-	-	-
BALANCE, December 31, 1999	-	$ -	-	$ -	4,380,589	$ 43,806

	Additional Paid-in Capital	Accumulated During the Development Stage	Subscription Receivables	Total
Dividend on Series A preferred stock	-	(9,000)	-	(9,000)
Induced conversion of preferred stock and debt to common stock	12,676,004	(7,030,511)	-	5,840,763
Sale of common stock to employees and ESPP	15,524	-	-	15,607
Common stock options and warrants issued to nonemployees	234,000	-	-	234,000
Beneficial conversion features upon conversion of debt	1,333,333	-	-	1,333,333
Stock split (Note 8)	262,831	-	-	-
Net loss for the period	-	(15,800,245)	-	(15,800,245)
BALANCE, December 31, 1999	$47,254,459	$(47,238,644)	$ -	$ 59,621

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 1, 2000 TO MARCH 15, 2000, THE YEARS ENDED DECEMBER 31, 1999, 1998 AND FOR THE PERIOD FROM INCEPTION (JANUARY 6, 1992) TO DECEMBER 31, 1999

	Period from January 1, 2000 to March 15, 2000 (unaudited)	Year Ended December 31, 1999	Year Ended December 31, 1998	Period From Inception (January 6, 1992) to December 31, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(13,355,049)	$(15,800,245)	$ (7,731,427)	$(39,147,998)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	325,095	1,625,081	1,652,715	4,804,920
Deferred rent	--	--	(167,446)	--
Gain on sale of assets	--	--	--	(69,525)
Noncash charge for induced conversion of debt	--	1,917,391	--	1,917,391
Noncash charges for value of warrants granted and amortization of original issue discount	--	203,000	--	203,000
Noncash charge due to beneficial conversion feature	--	157,500	--	157,500
Noncash charge for stock based compensation	7,778,850	--	--	--
Amortization of debt discount	2,940,339	--	--	--
Changes in operating assets and liabilities:				
Contract receivables	(58,659)	188,755	1,723,189	(73,304)
Costs and estimated profits in excess of billings on contracts in progress	(397,841)	3,069,008	(3,220,079)	(221,723)
Prepaid expenses and other current assets	(178,058)	129,840	214,738	140,779
Deposits and other assets	--	23,871	628,756	23,871
Accounts payable, accrued expenses, and other current liabilities	488,516	131,112	333,264	2,110,597
Advance payments on contracts to be completed	--	(246,518)	246,518	--
Net cash used in operating activities	(2,456,807)	(8,601,205)	(6,319,772)	(30,154,492)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of equipment	(57,574)	(250,193)	(688,042)	(3,154,640)
Acquisition of business, net of cash acquired	--	--	(547,503)	(547,503)
Proceeds from the sale of assets	--	--	--	229,550
Net cash used in investing activities	(57,574)	(250,193)	(1,235,545)	(3,472,593)

	Period from January 1, 2000 to March 15, 2000 (unaudited)	Year Ended December 31, 1999	Year Ended December 31, 1998	Period From Inception (January 6, 1992) to December 31, 1999

CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from senior notes, net of issuance costs	--	--	--	3,968,958
Proceeds from short-term debt	--	3,333,333	--	3,333,333
Proceeds from notes payable	--	590,232	--	590,232
Proceeds from sales of common stock, net of issuance costs	1,269,378	15,608	40,208	3,419,160
Proceeds from sales of preferred stock, net of issuance costs	--	3,752,407	6,875,028	23,856,998
Proceeds from short-term debt	1,923,300	--	--	--
Payments of obligations under capital lease	(92,748)	--	--	(823,128)
Net cash provided by financing activities	3,099,930	7,691,580	6,915,236	34,345,553
Net (decrease) increase in cash and cash equivalents	585,549	(1,159,818)	(640,081)	718,468
CASH AND CASH EQUIVALENTS, beginning of period	718,468	1,878,286	2,518,367	--
CASH AND CASH EQUIVALENTS, end of period	$ 1,304,017	$ 718,468	$ 1,878,286	$ 718,468
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$ 11,918	$ 242,000	$ 200,000	$ 930,593
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Conversion of preferred stock to common stock	$ --	$ 7,576,862	$ --	$ --
Conversion of senior debt to common stock	$ --	$ 4,000,000	$ --	$ --
Acquisition of business-				
Fair value of assets acquired, net of cash acquired	--	--	$ 978,399	--
Net book value assumed	--	--	(165,163)	--
Excess purchase price over net assets acquired	--	--	4,234,267	--
Value of preferred stock issued	--	--	(4,500,000)	--
Net cash paid for acquisition	--	$ --	$ 547,503	$ --

The accompanying notes are an integral part of these consolidated statements.

1. NATURE OF BUSINESS AND DEVELOPMENT STAGE RISKS

FED Corporation ("FED", together with its subsidiary the "Company") was formed on January 6, 1992, to develop, manufacture and market field emitter devices or flat panel displays. In January 1994, the Company moved its principal office from North Carolina to New York State. In connection with this move, a Delaware corporation was established and the North Carolina Corporation was statutorily merged into the Delaware corporation with the latter being the survivor. During 1998, FED acquired Virtual Vision, Inc. ("Virtual Vision," or the "Subsidiary"), a head-mounted display technology company. Virtual Vision develops and markets head-mounted display systems for standalone and wireless computing in commercial, industrial, and military applications.

The Company continues to be a development stage company, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises", as it continues to devote substantially all of its efforts to establishing a new business, and it has not yet commenced its planned principal operations. Revenues earned by the Company to date are primarily related to research and development type contracts and are not related to the Company's planned principal operations of the commercialization of products using OLED technology.

Since inception, the Company has entered into research and development cost-sharing arrangements, as well as research and development contracts, with several government agencies and private industry. Through December 31, 1999, such arrangements have provided total funding of approximately $32.6 million through cost sharing arrangements and contract revenues.

Through December 31, 1999, the Company had incurred development stage losses totaling approximately $39 million, and at December 31, 1999, had a working capital deficit of $3.3 million. The Company's future success is dependent upon its ability to continue to raise capital for, among other things, (1) its research and development efforts, (2) hiring and retaining key employees, (3) satisfaction of its commitments and (4) the successful development and marketing of its products.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue and Cost Recognition

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

Costs and Estimated Profits in Excess of Billings on Contracts in Progress

The Company records costs and estimated profits in excess of billings on contracts in progress as an asset on its balance sheet to the extent such costs, and related profits, if any, have been incurred under outstanding contracts and are expected to be collected.

The components of costs and estimated profits in excess of billings on contracts in progress as of December 31, 1999 were as follows:

	1999
Total costs incurred and estimated profits	$ 1,216,000
Less amounts billed	994,000
Costs and estimated profits in excess of billings on contracts in progress	$ 222,000

Research and Development/Cost Sharing Arrangements

To date, activities of the Company include the performance of research and development under cooperative agreements with United States Government agencies. Current industry practices provide that costs and related funding under such agreements be accounted for as incurred and earned.

The Company has entered into three cost sharing arrangements with an agency of the U.S. Government. The Company has incurred research and development costs and earned funding under these agreements as follows:

	1999	1998
Unfunded research and development	$ 8,997,000	$ 8,726,000
Research and development costs	2,322,000	2,787,000
Funding received	(1,148,000)	(1,263,000)
	$10,171,000	$10,250,000

Although it is not under any obligation, the Company may incur approximately $6,700,000 of additional costs on these efforts. If such costs, as defined, are incurred, the government is obligated to reimburse the Company for $3,326,000 of such costs.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of overnight commercial paper and are stated at cost, which approximates market, and are considered available for sale.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires the classification of debt and equity securities based on whether the securities will be held to maturity, are considered trading securities or are available-for-sale. Classification within these categories may require the securities to be reported at their fair market value with unrealized gains and losses included either in current earnings or reported as a separate component of shareholders' equity, depending on the ultimate classification.

Comprehensive Income

The Company complies with the provisions of SFAS No. 130, "Reporting Comprehensive Income", which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distributions to owners, for the period in which they are recognized. Comprehensive income is the total of net income and all other non-owner changes in equity (or other comprehensive income) such as unrealized gains or losses on securities classified as available-for-sale,

foreign currency translation adjustments and minimum pension liability adjustments. Comprehensive and other comprehensive income must be reported on the face of annual financial statements. The Company's operations did not give rise to any material items includable in comprehensive income which were not already in net income for the years ended December 31, 1999 and 1998. Accordingly, the Company's comprehensive income is the same as its net income for all period presented.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation on equipment is calculated using the straight-line method of depreciation over their estimated useful lives. 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.

Goodwill

Excess purchase price over net assets acquired ("goodwill") is amortized on a straight-line basis over the estimated period of benefit of the business acquired. Goodwill related to the acquisition of Virtual Vision of approximately $4,110,000, net of accumulated amortization of $1,439,000 at December 31, 1999, is being amortized over a period of five years.

Long-Lived Assets

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed," establishes financial accounting and

reporting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill. SFAS No. 121 requires, among other things, that assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be realizable considering, among other factors, expected future undiscounted operating cash flows of the related asset.

Income Taxes

Deferred income taxes are recorded by applying enacted statutory tax rates to temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. At December 31, 1999, the Company has net deferred tax assets of approximately $14.3 million, primarily resulting from the future tax benefit of net operating loss carryforwards discussed below. Such net deferred tax assets are fully offset by valuation allowances because of the uncertainty as to their future to be realized.

At December 31, 1999, the Company has net operating loss carryforwards of approximately $35.8 million, which expire through 2019, available to offset future taxable income. Pursuant to Section 382 of the Internal Revenue Code, the usage of a portion of these net operating loss carryforwards is limited due to changes in ownership that have occurred. Additionally, the transaction discussed in Note 3, will result in a further limitation of the use of such net operating loss carryforwards.

Stock-Based Compensation

The Company accounts for stock-based compensation issued to employees in accordance with Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25"), "Accounting for Stock Issued to Employees." The Company, as permitted, elected not to adopt the financial reporting requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," for stock-based compensation granted to

employees. Accordingly, the Company has disclosed in the notes to the financial statements the pro forma net loss for the periods presented as if the fair-value-based method was used in accordance with the provisions of SFAS No. 123.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior-year amounts have been reclassified to conform with the current year presentation.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Boards issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability and be measured at its fair value. Additionally, any changes in the derivative's fair value are to be recognized currently in earnings, unless specific hedge accounting criteria are met. This statement is effective for fiscal years beginning after June 15, 2000. The Company does not believe that adoption of this statement will have a material impact on its consolidated financial statements.

3. ACQUISITION

On March 16, 2000 FDC acquired all of the outstanding stock of FED. Under the

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

4. ACQUISITION OF VIRTUAL VISION

In March 1998, the Company acquired all of the outstanding stock of Virtual Vision for a total purchase price of $5,000,000, consisting of $500,000 in cash and 750,000 shares of the Company's Series F Preferred Stock valued at $6.00 per share. The acquisition was accounted for under the purchase method of accounting and the results of operations of Virtual Vision have been included in the consolidated financial statements since the date of acquisition. The purchase price was allocated based on the fair value of the assets acquired, determined by management's estimates, as supported by appraisal. Purchase price in excess of net assets acquired of approximately $4.1 million resulted in the acquisition, which is being amortized over a period of five years. Pro forma results of operations for the periods prior to the

acquisition are not materially different than the accompanying historical statements of operations presented for the Company.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements and their estimated lives are as follows at December 31, 1999:

	Useful Lives	1999
Computer equipment and software	3	$ 558,000
Lab and factory equipment	3	3,142,000
Furniture, fixtures and office equipment	10	149,000
Leasehold improvements	Life of lease	669,000
		4,518,000
Less- Accumulated depreciation and amortization		(3,304,000)
		$ 1,214,000

Depreciation and amortization expense of equipment and leasehold improvements for the years ended December 31, 1999 and 1998 amounted to approximately $810,000 and $1,026,000 respectively.

Additionally, from time to time, the Company makes deposits on certain equipment that may ultimately be purchased by a financing company and leased to the Company. Amounts paid by the Company for such deposits totaled approximately $14,000 for the year ended December 31, 1999.

6. DEBT

Senior Notes Payable

In April 1995, the Company completed a private placement for the issuance and sale of its 5% senior notes in the aggregate principal amount of $4,000,000, which was to mature in full on April 12, 2002, at an interest rate of 5% per annum payable quarterly. In July 1999, as part of the Company's recapitalization

(Note 8), the note was converted into 5,072,464 shares of the Company's common stock. Under the original terms of the notes, the holders of the senior notes had the right to convert the unpaid principal balance, in multiples of $1,000, into common stock at the price of $3.45 per share at any time, subject to provision for anti-dilution. In order to induce the note-holders to convert such notes, the Company provided for a conversion rate of 4.375 shares of common stock, for each share of common stock otherwise provided for under the original conversion terms. The Company has recorded an expense of $1,917,000 in the accompanying statement of operations for the year ended December 31, 1999 as a result of the conversion, based on an estimated fair value of $3.40 per share, the value of a common share based on the Merger discussed in Note 3.

Bridge Loans

In September 1999, the Company entered into two $1,000,000 convertible loans for an aggregate of $2,000,000. Each loan bears interest at 8% and matures in June 2000. The loans are convertible at the option of the holder into shares of the Company's common stock at a purchase price equal to the per share value of the Company's most recent equity financing. In connection with these loans, the Company issued warrants for the purchase of 167,000 shares of the Company's common stock at an exercise price

of $12.00 per share. The intrinsic value of these warrants of $140,000 has been recorded as original issue discount, resulting in a reduction in the carrying value of this debt. The original issue discount will be amortized into interest expense over the period of the debt.

In December 1999, the Company borrowed $1,333,333 from a corporation under the terms of a convertible note. The note was convertible into 392,157 shares of common stock under its original terms. The loan bears interest at 8% annually and matures in May 2000. In connection with the Merger discussed in Note 3, this note converted into common stock. Based on the terms of the merger the conversion terms of the debt provide for a beneficial conversion feature. The value of the beneficial feature is recorded as an offset to the debt account and will be amortized into interest expense over the original issuance term. At the merger date, the remaining discount will be amortized into interest expense.

7. LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 1999:

	1999
Notes payable (a)	$ 653,000
Liabilities assumed from Virtual Vision (b)	100,000
Capital leases (c)	57,000
	810,000
Less-Current portion	269,000
	$ 541,000

a. In May 1999, the Company entered into a $625,000 three-year loan agreement collateralized by its fixed assets. The aggregate remaining principal balance is $508,421 at December 31, 1999 and payments are due through 2002 at an interest rate of 13.88%.

In June 1999, the Company entered into a $155,000 five-year uncollateralized loan agreement. The proceeds were used to finance a leasehold improvement. The aggregate principal balance is $144,964 at December 31, 1999 and payments are due through 2004 at an interest rate of 18%.

b. In connection with the acquisition of Virtual Vision, the Company assumed a liability relating to a previous acquisition made by Virtual Vision. At December 31, 1999, the remaining payments under this agreement totaled $100,000, payable $50,000 per year for each of the next two years. This agreement also provides for

additional payments over the $50,000 per year should certain technology acquired be used in consumer applications, whereby payments would be required based on certain percentages of licensing and sales revenues.

c. The Company is party to a capital lease for certain equipment with aggregate remaining principal balance totaling $56,868 at December 31, 1999, excluding interest, due through 2003 at an interest rate of 7.27%

Maturity of debt as of December 31, 1999 is as follows:

2000	$ 269,000
2001	351,000
2002	115,000
2003	49,000
2004	26,000
	$ 810,000

8. SHAREHOLDERS' EQUITY

In March 2000, FED repriced approximately 325,000 common stock options issued to employees. The repricing resulted in a non-cash compensation expense of approximately $2.7 million for the period ended March 15, 2000.

In addition, FED repriced approximately 108,000 warrants issued to outside consultants and organizations that provided bridge loans and funding commitments to the Company. The repricing resulted in a non-cash charge of approximately $1.2 million, which is included in the accompanying consolidated statement of operations for the Company period ended March 15, 2000.

In March 2000, FED issued options to purchase common stock to employees at an exercise price below the fair market value on the date of grant of $7.00. These options vest over a period of 1 - 60 months with a minimum lockup period of 18 months. As a result, the Company recorded deferred compensation expense in the amount of approximately $12.5 million, which will be amortized over the vesting period of the options.

FED also issued warrants to shareholders at an exercise price below the fair market value on the date of grant. As a result, FED recorded a one-time compensation expense of approximately $2.5 million for the period ended March 15, 2000.

The recipients of the repriced options and warrants were required to execute lock-up agreements that prohibit disposition of the underlying shares for a period of 18 months following the Merger. Thereafter the recipients may transfer no more that 20% of the underlying shares in the 6 months following the end of the 18-month period, and the balance of the underlying shares may be transferred 24-27 months after the Merger.

Common Stock

In July 1999, the Company effected a 1 for 7 reverse stock split, resulting in a reduction of total common shares outstanding from approximately 30.7 million shares to approximately 4.4 million shares.

During 1999, the Company amended its Certificate of Incorporation and was authorized to issue 50,000,000 shares of its Common Stock.

Preferred Stock

Through 1999, the Company's Certificate of Incorporation provided for the issuance of a total of 5,000,000 shares of preferred stock, which could be issued in various series.

Through 1998, the Company had issued an aggregate of 4,988,827 of Series A through F preferred stock. The various series generally provided for a liquidation preference equal to the original purchase price of the preferred stock, plus accrued but unpaid dividends, if declared, and were generally convertible at a rate of one share of preferred for one share of common, at the option of the holder.

During 1999, the Company issued 681,446 shares of Series G preferred stock, generating aggregate proceeds of approximately $3,847,000. In connection with the issuance of the Series G preferred, the Company offered exchange credits whereby those purchasers of Series G preferred, also holders of preferred Series D, E and F, would exchange Series D, E and F preferred for upgrades to Series D1, E1 and F1 preferred.

The Series G preferred provided for an immediate liquidation value of $7.05 per share, in excess of the purchase price. Accordingly, a charge of approximately $957,000 was recorded against retained earnings to accrete the value of the preferred stock to its liquidation value.

In July 1999, the Company induced conversion of all preferred series by providing for conversion rates and terms that were more beneficial than the original terms. The conversion of all preferred series resulted in the issuance of 20,124,851 shares of the Company's common stock, 14,474,579 shares in excess of the number of shares that would have been issued under the original terms of the preferred series. Accordingly, a charge to retained earnings of approximately $7,000,000 has been recorded, based on a fair value of approximately $3.40 per common share, the fair value attributable to the Company's common stock in the Merger discussed in Note 3.

9. STOCK-BASED COMPENSATION PLANS

The Company has two stock-based compensation plans, described below, which provide for the grant at fair market value. The Company applies APB Opinion No. 25 and related interpretations of accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan. Had compensation cost for the Company's two stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net loss would have been the pro forma amounts indicated below:

	1999	1998
Net loss as reported	$ (15,800,000)	$ (7,731,000)
Net loss pro forma	(16,656,000)	(7,949,000)

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1995, and additional awards in future years are not anticipated.

Stock Option Plan

As amended in the Certificate of Incorporation, the Company's Stock Plan (the "Plan") permits the granting of options to purchase an aggregate of 4,500,000 shares of the Company's Common Stock to employees and consultants of the Company. The Plan also permits the granting of stock purchase rights to employees and consultants of the Company. Under the Plan, the Company may grant either incentive or nonstatutory stock options; however, incentive options may only be granted to employees. The exercise price of an incentive stock option may not be less than the fair market value, as estimated by management, of the Company's common shares on the date such option is granted. The exercise price of

a nonstatutory stock option may be less than the fair market value on the date

of grant. In accordance with SFAS No. 123, any grants to other than employees of the Company, and certain directors, will result in a charge on earnings based to the fair value of the instruments granted.

Vesting terms of the options range from immediate vesting of all options to a ratable vesting period of 5-1/2 years. Option activity for the years ended December 31, 1999 and 1998 is summarized as follows (all amounts have been restated to reflect the Company's 1 for 7 reverse stock split (Note 8)):

	1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	288,875	$ 18.13	269,642	$ 16.73
Options granted	155,666	21.00	24,728	34.44
Options exercised	-	-	(714)	17.50
Options forfeited	(22,718)	22.43	(1,163)	18.48
Options canceled	(46,521)	21.68	(3,618)	27.23
Outstanding at end of year	375,302	18.59	288,875	18.13
Exercisable at end of year	283,389		134,198	16.38
Weighted average fair value of options granted	$ 14.84		$ 8.68	

At December 31, 1999, there were 267,555 shares available for grant under the Plan.

At December 31, 1999, there were 369,136 warrants issued and included in the Black-Scholes option pricing model for pro forma purposes.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1999 and 1998, respectively: risk-free interest rate of 4.49% and 5.29%; no expected dividend yield, expected lives of 2.6 and 5.3 years; and .78 and 0 expected stock price volatility in 1999 and 1998, respectively. Exercise prices for outstanding options at December 31, 1999 and 1998 range from $5.20 - $38.00.

The following table summarizes information about stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 1999	Weighted Average Exercisable Price
$ 5.25 - $15.00	120,302	5 years	$ 11.23	124,971	$ 11.23
15.01 - 20.00	76,014	5.9 years	17.99	52,379	18.22
20.01 - 25.00	156,334	4.9 years	21.80	106,382	21.67
25.01 - 40.00	22,652	8.2 years	37.53	5,143	37.28
	375,302			288,875	

Employee Stock Purchase Plan

During 1994, the Company adopted a noncompensatory Employee Stock Purchase Plan (the "ESPP"), under which eligible employees may contribute up to 20% of their

base earnings, through payroll deductions, toward the purchase of the Company's Common Stock. The employees' purchase price is derived from a formula based on the fair market value of the Common Stock. A total of 200,000 shares of Common Stock are reserved for issuance under the ESPP, of which 8,326 were purchased by employees during 1999. No compensation expense has been recorded in connection with these transactions to date as the aggregate differences between the purchase price and the fair value of the common stock purchased have been immaterial.

Warrants

In June 1999, the Company issued a warrant to purchase 600,000 shares of the Company's common stock to an entity for a commitment to participate in future financings. The warrant is exercisable for a three year period at an exercise price of $12 per share. The exercise price is subject to change for antidilution effects, as defined. The intrinsic value of this warrant of approximately $71,000 was charged to the statement of operations for the year ended December 31, 1999.

10. COMMITMENTS

Royalty Payments

In 1992, the Company entered into a license agreement with the Microelectronics Center of North Carolina ("MCNC"), granting the Company exclusive rights to all inventions and patents developed by MCNC involving field emission technology. The Company is obligated to pay a royalty in connection with the sale of products related to certain technologies of .1% to 2%, as defined, with minimum royalty payments of $50,000 per year through 1997 and $75,000 per year thereafter for as long as any one of the patents remains valid and outstanding. There were no sales of products in 1998 or 1997. In 1999, the Company terminated this license agreement. The Company has recorded $75,000 of royalty expense in research and development expenses for the year ended December 31, 1998.

The Company, as a result of its acquisition of Virtual Vision (Note 4) was obligated to pay royalties to Insight Corporation ("Insight") on their license and sales revenues allocable to the patent application and patent acquired from Insight. If royalties payable in any year are less than $75,000, the Company may pay Insight the deficiency and receive a credit against royalties payable in future years. In 1999, the Company elected not to pay the deficiency and Insight exercised its right to repurchase the patent application and patent for $75,000. For the year ended December 31, 1998 the Company had recorded $56,250 of royalty expense in research and development expenses. There was no royalty expense incurred during 1999.

License and Technology Agreement

In March 1997, the Company entered into a technology agreement with a corporation to permit potential commercialization of small-format OLED displays. The Company is dependent upon its license agreement with the corporation for the development and commercialization of its currently planned OLED products. Payments are due under evaluation and license agreements based on the achievement of certain milestones in phases of the agreements. Payments totaling $650,000 and $250,000 for the years ended December 31, 1999 and 1998, respectively, were charged to research and development expense

under various phases of these agreements. Based on the remaining phases of the current agreements, the Company will be required to make additional payments of $250,000 in 2001, if the remaining phases of the agreements are achieved.

Operating Leases

The Company leases certain office facilities and office, lab and factory equipment under operating leases expiring through January 2004. Certain leases provide for payments of monthly operating expenses. The approximate future minimum lease payments are as follows:

Year ending December 31:

2000	$ 2,879,000
2001	2,306,000
2002	1,046,000
2003	915,000
2004	383,000
	$ 7,529,000

For the year ended December 31, 1999, rent expense was approximately $2,813,000.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information contained in the 2001 Proxy Statement under the heading "Information Regarding Directors and Executive Officers" is incorporated herein by reference in response to this item.

ITEM 11: EXECUTIVE COMPENSATION.

The information contained in the 2001 Proxy Statement under the heading "Compensation and Other Transactions with Directors and Executive Officers" is incorporated herein by reference in response to this item.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information contained in the 2001 Proxy Statement under the heading "Principal Stockholders" and "Stock Ownership of Directors and Management" is incorporated herein by reference in response to this item.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information contained in the 2001 Proxy Statement under the heading "Compensation and Other Transactions with Directors and Executive Officers" is incorporated herein by reference in response to this item.

PART IV

Item 14: Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statements

Financial Statements are included in Item 8, "Financial Statements and Supplementary Data" as follows:

- Report of Independent Public Accountants
- Consolidated Balance Sheets as of December 31, 2000 and 1999

- Consolidated Statements of Operations for the Years ended December 31, 2000, 1999 and 1998 and for the period from inception (January 23, 1996) to December 31, 2000

- Consolidated Statements of Shareholders' Equity for the years ended December 31, 2000, 1999, 1998 and 1997 and the period from inception (January 23, 1996) to December 31, 2000.

- Consolidated Statements of Cash Flows--Years ended December 31, 2000, 1999 and 1998 and for the period from inception (January 23, 1996) to December 31, 2000

- Notes to Consolidated Financial Statements--December 31, 2000

(a) 2. Financial Statement Schedules

None

(a) 3. Exhibit List

Exhibit Number	Description
2.1	Agreement and Plan of Merger between Fashion Dynamics Corp., FED Capital Acquisition Corporation and FED Corporation dated March 13, 2000, as filed in the Registrant's Form 8-K/A Report (file no. 001-15751) incorporated herein by reference.
3.1	Articles of Incorporation filed January 23, 1996, as filed in the Registrant's Form 10-SB (file no. 000-24757) incorporated herein by reference.

3.2	Bylaws, as filed in the Registrant's Form 10-SB (file no. 000-24757) incorporated herein by reference.
4.1	See Exhibits 3.1 and 3.2 for provisions of the Articles of Incorporation and Bylaws of the Registrant defining rights of the holders of common stock of the Registrant.
10.1	2000 Stock Option Plan, as filed in the Registrant's Form S-8 (file no. 333-32474) incorporated herein by reference.
10.2	Consulting Agreement between eMagin Corporation and Verus International Ltd., dated March 16, 2000.
10.3	Employment Agreement with Gary W. Jones, dated March 16, 2000.
10.4	Employment Agreement with Susan K. Jones, dated March 16, 2000.
10.5	Employment Agreement with Andrew Savadelis, dated September 11, 2000.
10.6	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. (Confidential treatment requested for portions of this agreement).
10.7	Amendment Number 1 to the 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 16, 2000.
10.8	Amendment Number 1 to the Lease between International Business Machines Corporation and FED Corporation dated July 9, 1999.
10.9	Lease between International Business Machines Corporation and

	FED Corporation dated May 28, 1999.
10.11	Amendment Number 2 to the Lease between International Business Machines Corporation and FED Corporation dated January 29, 2001.
10.12	Virtual Vision lease between Redson Building Partnership and Vision Newco dated December 15, 1995.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Arthur Andersen LLP.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 30th day of March 2001.

EMAGIN CORPORATION

BY: /s/ Gary Jones

Gary Jones
CHIEF EXECUTIVE OFFICER AND PRESIDENT

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED:

NAME	TITLE	DATE
/s/ Gary Jones --- Gary Jones	President, Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2001
/s/ Andrew P. Savadelis --- Andrew P. Savadelis	Executive Vice President and Chief Financial Officer (Principal Financial Accounting Officer)	March 30, 2001
/s/ Claude Charles --- Claude Charles	Director	March 30, 2001
/s/ Ajmal Khan --- Ajmal Khan	Director	March 30, 2001

/s/ N. Damodar Reddy	Director	March 30, 2001

N. Damodar Reddy		
/s/ Jack Rivkin Jack Rivkin	Director	March 30, 2001
/s/ Martin L. Solomon Martin L. Solomon	Director	March 30, 2001

Exhibit 10.2

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT is dated as of the 16th day of March, 2000 (the "Effective Date") by and between eMagin Corporation, a Nevada corporation, with its principal place of business at 1580 Route 52, Hopewell Junction, NY 12633 (the "Company") and Verus International Ltd., a Barbados corporation, with its principal place of business at 1177 W. Hastings Street, Suite 2000, Vancouver, British Columbia, Canada V6E 2K3 (the "Consultant").

WHEREAS, the Company desires to contract for the consulting services of the Consultant and the Consultant desires to perform such consulting services on behalf of the Company; and

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants set forth herein, the parties hereto agree as follows:

1. Term. The Company hereby retains the Consultant and the Consultant hereby accepts such retainer for a term (the "Term") commencing upon the Effective Date and ending (2) years therefafter.

2. Services. The Company hereby retains the Consultant as a consultant to advise the Company in connection with its business affairs and the Consultant hereby agrees to render such advisory and consulting services. In rendering such advisory and consulting services to the Company, the Consultant shall be required to report on a periodic basis to the Company's officers or any other location; provided, however, that the Consultant may render any report by telephone or written communication. The Company acknowledges that the Consultant has other personal and business activities, obligations and employments which may command part of its time.

3. Compensation.

(a) Retainer. The Company shall pay the Consultant fifteen dollars ($15,000) per month (the "Retainer Fee") for the Consultant's services hereunder.

(b) Independent Contractor Status. The Consultant acknowledges and agrees that, during the Term, the relationship between the Consultant and the Company is that of an independent contractor. Notwithstanding any determination by the Internal Revenue Service that the Consultant is an employee (if it should ever happen), the Consultant shall be responsible to pay all taxes as if it was an independent contractor (or to reimburse the Company if the Company is required to pay such amounts on behalf of the Consultant). The Consultant shall not be permitted to participate in any group life, hospitalization or disability insurance plans, health programs, pension plans, retirement benefits or similar benefits that may be available to employees of the Company.

(c) Expenses. The Company shall pay or reimburse the Consultant for all reasonable and properly documented out-of-pocket expenses actually incurred or paid by the Consultant during the Term in the performance of the Consultant's services under this Agreement which have been authorized by the Company in writing prior to the expenditure.

4. Standards. The Consultant shall perform its duties under this Agreement to the best of its abilities and in accordance with such standards of professional ethics and practice as are applicable during the Term.

5. Termination. This Agreement is terminable by the Company only "For Cause" (as defined below). In the event this Agreement is terminated "For Cause," the Company shall provide Consultant with written notice of termination of the Consultant's services hereunder as of a prospective date to be specified

in such notice, and this Agreement shall terminate on the date so specified. Termination "For Cause" shall mean the Consultant shall (i) commit any act, or omit to take any action, in bad faith and to the detriment of the Company; (ii) commit an act of moral turpitude; (iii) commit an act of fraud against the Company; or (iv) materially breach any term of this Agreement and fail to correct such breach within thirty (30) days after written notice of commission thereof. In the event that this Agreement is terminated "For Cause," then the Consultant shall be entitled to receive only the Retainer Fee at the rate provided in Section 3 to the date on which termination shall take effect. Notwithstanding the foregoing, the Company is entitled to prepay an amount that represents the aggregate Retainer Fee payable through the remainder of the Term, whereupon the Company may terminate this Agreement immediately upon the Consultant's receipt of such prepayment.

6. Covenants of the Consultant.

(a) Covenant Against Competition. The Consultant acknowledges that (i) the principal business of the Company and its affiliates is developing and providing optoelectronic imaging system technology (the "Present Business"); (ii) the Company and its affiliates are a few of a limited number of companies who have developed the Present Business; (iii) the Present Business is, in part, national in scope; (iv) the Consultant's work for the Company and its affiliates has given and will continue to give it access to the confidential affairs and proprietary information of the Company and its affiliates not readily available to the public; and (v) the agreements and covenants of the Consultant contained in this Section 6 are essential to the business and goodwill of the Company. Accordingly, the Consultant covenants and agrees that:

(b) During the Term and for a period of two (2) years following the date that the Consultant shall cease to be a consultant for the Company (the "Restricted Period"), the Consultant shall not in the United States of America, directly or indirectly (1) engage in the Present Business or any other principal line of business entered into by the Company during the Term (the "Company Business") for the Consultant's own account (the Consultant may submit any plans to operate a business to the Company for a determination as to whether the business would be categorized as Company Business hereunder); (2) render any services in any capacity to any person (other than the Company or its affiliates) engaged in such activities; or (3) become interested in any such person (other than the Company) as a partner, shareholder, principal,

agent, trustee, consultant or in any other relationship or capacity; provided, however, that the Consultant may own, directly or indirectly, solely as an investment, securities of any such person which are traded on any recognized United States or foreign securities exchange or electronic trading system if the Consultant (A) is not a controlling person of, or a member of a group which controls, such person and (B) does not, directly or indirectly, knowingly own five percent (5%) or more of any class of securities of such person.

(c) During the Restricted Period and thereafter, the Consultant shall keep secret and retain in strictest confidence, and shall not use for its benefit or the benefit of others, except in connection with the business and affairs of the Company and its affiliates, all confidential matters relating to the Company Business and to the Company and its affiliates learned by the Consultant heretofore or hereafter, directly or indirectly, from the Company and its affiliates, including any information concerning the business, affairs, customers, clients, sources of supply and customers lists of the Company or its affiliates (the "Confidential Company Information") and shall not disclose them to anyone except with the Company's express written consent and except for Confidential Company Information which (1) is at the time of receipt publicly known, or thereafter becomes publicly known, through no wrongful act of the Consultant or (2) is received from a third party not under an obligation to keep such information confidential and without breach of this Agreement. These rights of the Company are in addition to and without limitation to those rights and remedies available under common law for protection of the types of such confidential information which constitute trade secrets as construed under controlling law.

(d) During the Restricted Period, the Consultant shall not, without the Company's prior written consent, directly or indirectly, knowingly solicit or encourage to leave the employment of the Company or any of its affiliates,

any employee of the Company or any of its affiliates or hire any employee who has left the employment of the Company or any of its affiliates within one (1) year of the termination of such employee's employment with the Company or any of its affiliates.

(e) All memoranda, notes, lists, records and other documents (and all copies thereof) constituting Confidential Company Information made or compiled by the Consultant or made available to the Consultant concerning the Company Business or the Company or any of its affiliates shall be the Company's property, and shall be returned by the Consultant to the Company upon the written request of the company after Consultant's termination for any reason.

7. Rights and Remedies upon Breach. If the Consultant breaches any of the provisions of Section 6 (the "Restrictive Covenants"), the Company shall have the following rights and remedies (upon compliance with any necessary prerequisites imposed by law upon the availability of such remedies), each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity:

(a) The right and remedy to have the Restrictive Covenants specifically enforced by any court having equity jurisdiction, including, without limitation, the right to an

entry against the Consultant of restraining orders and injunctions against violations, whether or not then continuing, of such covenants, it being acknowledged and agreed that any such breach will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company.

(b) The right and remedy to require the Consultant to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits (collectively, the "Benefits") derived or received by it primarily as the result of any transactions constituting a breach of the Restrictive Covenants, and the Consultant shall account for and pay over such Benefits to the Company. The Company may set off any amounts due to the Company under this Section 7(b) against any amounts owed to the Consultant.

8. Consolidation or Merger. If there shall be a consolidation, merger or sale of the Company with or into another corporation, all remaining amounts that would have been payable for the remainder of the Term shall be due and payable at the closing of any such transaction and this Agreement shall be terminated as of the last day of the month of the Company's consolidation or merger, with the same force and effect as if such last day of the month were originally the end of the Term.

9. Winding up of the Company. If the Company shall voluntarily discontinue its business and operations for a period of forty-five (45) consecutive days, this Agreement shall terminate as of the last day of the month in which the Company ceases operations with the same force and effect as if such last day of the month were originally the end of the Term.

10. Other Provisions.

(a) Severability. The Consultant acknowledges and agrees that (i) it has had an opportunity to seek advice of counsel in connection with this Agreement; (ii) the Restrictive Covenants are reasonable in geographical and temporal scope and in all other respects; and (iii) the Company would not have entered into this Agreement but for the Restrictive Covenants contained herein. If it is determined that any of the provisions of this Agreement, including, without limitation, any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the provisions of this Agreement shall not thereby be affected and shall be given full effect, without regard to the invalid portions.

(b) Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile, or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered

personally, telegraphed, telexed or sent by facsimile or, if mailed, five (5) days after the date of deposit in the United State mails as follows:

If to the Company: eMagin Corporation
1580 Route 52
Hopewell Junction, NY 12633
Attn: Mr. Gary W. Jones

If to the Consultant: Verus International Ltd.
1177 W. Hastings Street
Suite 2000
Vancouver, British Columbia
CANADA V6E 2K3
Attention: Ajmal Khan, President

(c) Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

(d) Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended only by a prior written instrument signed by the parties. No delay on the part of either party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party or any such right, power or privilege, nor any single or partial exercise of such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

(e) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the rules governing conflict of laws. Any action, suite or proceeding arising out of, based on, or in connection with this Agreement may be brought only and exclusively in the federal or state courts located in the State of New York.

(f) Assignment. This Agreement, and any party's rights and obligations hereunder, may not be assigned without the prior written consent of the other party. Any purported assignment in violation hereof shall be null and void.

(g) Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs, executors and legal representatives.

(h) Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original but all such counterparts together shall constitute one and the same instrument. Each counterpart may consist of two copies hereof each signed by one of the parties hereto.

(i) Headings. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the parties hereto have signed their names as of the day and year first above written.

EMAGIN CORPORATION

By:

Name: Gary Jones
Title: President & CEO

VERUS INTERNATIONAL LTD.

By:

Name: Ajmal Khan
Title: President

Exhibit 10.3

EMAGIN CORPORATION

EXECUTIVE EMPLOYMENT AGREEMENT

Executive Name:	Gary W. Jones
Address:	8 Taconic View Court LaGrangeville, NY 12540
Title:	Chief Executive Officer/President
Starting Salary:	See Section 2.1 below
Starting Date:	March 16, 2000

This Executive Employment Agreement (the "Agreement") is made at Hope Junction, New York as of the above date between EMAGIN CORPORATION, a Nevada corporation (the "Company"), and the above named executive ("Executive").

1. EMPLOYMENT

1.1. Time and Effort.
The Company hereby employs Executive and Executive accepts such employment on the terms contained in this Agreement. Executive shall serve as President until a candidate suitable to both the Board of Directors and Executive can be identified to run the day to day operations of the Company and at such time as the Board of Directors and Executive deem it appropriate. Executive shall have those responsibilities, duties, and authorities that are consistent with his title(s). Subject to the foregoing, Executive shall perform such duties as the Company may direct. Executive shall report to the Board of Directors. Executive shall devote Executive's best efforts and entire time during normal business hours to the performance of Executive's duties under this Agreement. During Executive's employment Executive shall not engage in any business activities outside those of the Company to the extent that such activities would interfere with or prejudice Executive's obligations to the Company.

1.2. Service on Board of Directors.
For as long as Executive is an employee of the Company, Executive shall receive no additional compensation for serving as a member of the Company's Board of Directors.

2. COMPENSATION

2.1. Base Salary.
As compensation for performing services for the Company, Executive shall be entitled to retain his current salary as of the date of this Agreement. Executive will additionally receive annual salary increases based on no less than the average percent annual rates of salary increase given to Company employees who received salary increases during the preceding twelve (12) months.

The first date of increase will be the choice of the Executive, but will remain that date in future years after selection. The formula for Executive's percentage salary increase shall be:

(Sum of Annual Base Percentage Rate of
Salary Increases for Staff Receiving Raises)

divided by

(Number of Staff Receiving Raises)

2.2. Time Off.

Executive shall accrue personal time off for vacation, sick leave, or personal reasons upon completion of each month following the date of this Agreement in accordance with applicable Company policies.

2.3. Fringe Benefits.
During Executive's employment, Executive shall be entitled to participate, to the extent of Executive's eligibility, in the employee fringe benefits made available by the Company to its employees. Executive consents to the Company obtaining "key man" insurance on Executive for the Company's benefit and agrees to take any medical examinations required to obtain such insurance.

2.4. Business Expenses.
The Company shall pay or reimburse Executive for reasonable expenses incurred in connection with Executive's employment in accordance with applicable Company policies.

2.5. Stock Options.
Executive shall be eligible to participate in the Company's 2000 Stock Option Plan, as determined in the sole discretion of the Board of Directors or, if applicable, a stock option committee established thereby.

2.6. Bonus.
A performance bonus structure for Executive will be established on two criteria: (1) predetermined operating milestones, and (2) public market valuations. The exact terms and measurement criteria are subject to approval by the Company's Board of Directors.

3. TERM AND TERMINATION

3.1. Term
This Agreement shall commence on the date hereof and shall continue hereafter unless terminated pursuant to this Section 3 for a period of twenty-four (24) months.

3.2. Voluntary Termination.
If Executive voluntarily terminates Executive's employment with the Company, Executive shall cease to accrue salary, vacation, benefits and other compensation on the date of voluntary termination. Accrued benefits, if any, will be payable in accordance with applicable benefit plan provisions.

3.3. Termination Without Cause.
The Company may terminate the employment of Executive at any time without notice and without cause. In such event, Executive shall be entitled to twelve (12) months salary, based on

Executive's monthly rate of base salary at the date of such termination. Executive will otherwise cease to accrue salary and other benefits upon the date of termination. Accrued benefits, if any, will be payable in accordance with applicable benefit plan provisions. Notwithstanding the foregoing, the Company shall have no obligation to pay Executive any of such salary or such benefits that may accrue after the Company ceases to do business, liquidates substantially all of its assets (except in connection with a sale of substantially all of the assets of the Company as a going concern), or voluntarily or involuntarily becomes the subject of a proceeding under the Bankruptcy Code that is not dismissed within 60 days.

3.4. Disability.
Executive's employment shall terminate if Executive has been unable to perform substantially all duties assigned to Executive because of Executive's disability, illness, or other incapacity (other than a disability or incapacity that may exist on the date of this Agreement) and such inability has continued for 90 days or such longer period as the Company in its sole discretion may determine ("Disability"). In such event, Executive will cease to accrue salary, benefits or other compensation on the 90th day of disability, illness, or other incapacity (or such later day as the Company has determined in its sole discretion). Executive shall be paid all earned salary, vacation, and other compensation on the 90th day (or such later day as the Company has determined in its sole discretion). Accrued benefits, if any, will be payable in accordance with applicable benefit plan provisions. In the event Executive's employment

terminates under this Section 3.4, Executive may pursue long term disability benefits, if eligible, under any plan which the Company has provided for Executive.

3.5. Death.
Executive's employment shall terminate at death and Executive's estate shall not thereafter accrue salary or any other benefits or rights. All amounts due Executive shall be paid to Executive's estate in accordance with applicable Company policies and benefit plan provisions.

3.6. Effect of Termination without "Cause" on Employee Stock Options.
The Company hereby irrevocably offers to amend any stock options granted to Executive to permit the full exercise thereof following termination of Executive's employment without Cause (as defined in Section 3.7) or because of death or Disability. The Company hereby also irrevocably offers to amend any stock options granted to Executive to permit the full exercise thereof at any time after termination of Executive's employment without Cause or because of death or Disability to the same extent as if Executive's employment had not terminated. Executive or Executive's personal representative may accept either or both of such offers at any time before such options otherwise expire by giving written notice to the Company. To the extent that any options held by Executive are not incentive stock options within the meaning of Section 422 of the Internal Revenue Code, Executive hereby accepts both such offers.

3.7. Cause.
"Cause" means

(a) failure to devote substantially all of Executive's full professional time, attention, energies, and abilities to Executive's employment duties for the Company, which failure is not cured within two weeks after the Company gives Executive written notice of the failure;

(b) breach of the terms or conditions of Executive's confidentiality agreement with the Company, which breach is not cured within two weeks after the Company gives Executive written notice of the breach;

(c) unexcused absences in excess of five (5) days in the aggregate within any one-year period (with absences for bona fide illness considered excused);

(d) inducement of any customer, consultant, employee, or supplier of the Company to breach any contract with the Company or cease its business relationship with the Company or any competition with the Company;

(e) willfully exceeding the scope of Executive's authority as a specifically delegated in writing from time to time by the Company's Board of Directors;

(f) willful, deliberate, and persistent failure by Executive to perform the duties and obligations of Executive's employment which are not remedied in a reasonable period of time after receipt of written notice from the Company;

(g) an act or acts of dishonesty undertaken by Executive intended to result in substantial gain or personal enrichment of Executive at the expense of the Company;

(h) material breach of a fiduciary or contractual duty to the Company;

(i) commission of an act that results in material harm to the goodwill or reputation of the Company; or

(j) conviction of any felony.

3.8. Termination for Cause.
To be deemed terminated for Cause, the Company shall have given Employee written notice stating the alleged Cause and shall have provided Employee an opportunity to present evidence to the Board of Directors, at the Company's offices on a date and time mutually convenient to the Board, no sooner than one and not later than two weeks after the foregoing notice, to refute the claim of Cause. Pending a hearing to determine whether Cause exists, the Company may suspend Executive

with pay.

4. CONFIDENTIAL INFORMATION AND EMPLOYEE WORK PRODUCT

4.1. Non-Disclosure of Confidential Information and Materials.
Executive recognizes that the nature of Executive's employment and relationship with Company is such that Executive will have access to, and that there will be disclosed to Executive during the course of such relationship, Confidential Information owned by Company and its current and future affiliates (collectively referred to as "Affiliates"). Company and its Affiliates are collectively referred to in this Agreement as "Company Parties." Executive acknowledges that, except for Executive's relationship with Company and the duties assigned to Executive, Executive would not otherwise have access to Confidential Information.

4.2 Confidential Information.
As used in this Agreement, "Confidential Information" means all information, data, and materials relating to any business or other activity of Company Parties (and any third party which the Company is under an obligation to keep confidential and that is maintained by the

Company as confidential) or used by Company Parties or such third parties in their business or other activity, either now or in the future, including without limitation: (i) trade secrets, inventions, mask works, ideas, formulas, methods, processes, prototypes, models, source and object codes, data, know-how, improvements, discoveries, designs, and techniques developed, created, used or practiced by, conceived of, or reduced to practice by any employee or contractor of Company Parties (including by Executive in the course of Executive's employment with Company); (ii) information pertaining to development and business plans for Company Parties; information relating to relationships between Company Parties and other entities, including licenses and other contracts; information relating to released or unreleased products, marketing or promotional information; and any confidential or proprietary information that is circulated within Company Parties; (iii) reports and data developed or acquired by Company Parties; and (iv) forms, policies, and other forms of written and non-written (including intangible) data, experience, and information, whether of a technical, operational, or economic nature relating to Company's business, services and employees. "Confidential Information" includes the Confidential Information of third parties that Company Parties are required to keep confidential. "Confidential Information" shall not include that information defined as Confidential Information above that: (i) entered the public domain without any breach of any obligation owed to Company Parties under this Agreement; (ii) became known to Executive from a source other than Company Parties and other than by the breach of an obligation of confidentiality owed to Company under this Agreement or under an agreement between Company and a third party; or (iii) was disclosed by Company to a third party without any obligation of confidence; provided, however, that (a) Executive agrees that if Executive has any questions as to what comprises such Confidential Information, or to whom, if anyone, outside Company it may be disclosed, Executive will consult with Executive's manager at Company and (b) in the event of a disputed disclosure, Executive shall bear the burden of proof of demonstrating that the Confidential Information falls within one of the above exceptions.

4.3 Irreparable Harm.
Executive expressly acknowledges and agrees that disclosure of the Confidential Information of Company Parties would severely affect Company's business and/or the business of Company's clients and provide the recipient of the Confidential Information with a substantial and unfair competitive advantage. Therefore, during the term of Executive's relationship with Company and at all times thereafter, regardless of the circumstances surrounding any termination of this relationship, Executive shall keep secret all matters entrusted to Executive and shall not use or attempt to use for any purpose (other than the furtherance of Company's business while Executive am in the employ of Company), or disclose to any person, any Confidential Information of Company Parties.

4.4 Return of Materials Upon Termination of Employment.
Upon termination of Executive's relationship with Company for whatever reason or at anytime prior to termination at Company's request, Executive shall immediately surrender and turn over to Company all tangible Confidential

Information, including without limitation any and all Company Parties' documents, any and all computer programs (whether or not completed or in use), any and all lab notebooks created by me in the course of Executive's employment, any and all operating manuals or similar materials which constitute the systems, policies, and procedures, and methods of doing business developed by Company Parties, any other material on any media

containing or disclosing any Confidential Information. In addition, Executive shall turn over all keys, equipment, identification or credit cards and all other property belonging to Company Parties. Executive understands that all such documents and materials are the sole property of Company Parties and that Executive shall not make or retain any copies thereof on any media. Executive will carry out all of the foregoing obligations no later than the first business day after Executive leaves the employ of Company.

5. ASSIGNMENT OF INVENTIONS

5.1 Assignment of Inventions.
Executive agrees to make prompt and full disclosure to Company (or any persons designated by it), will hold in trust for the sole benefit of Company, and, without further compensation, will assign exclusively to Company worldwide all Executive's right, title, and interest in and to any and all inventions, discoveries, designs, developments, improvements, copyrightable material, and trade secrets (collectively herein "Inventions") that Executive, solely or jointly, may conceive, develop, or reduce to practice that (a) relates to the business of the Company or any customer of or supplier to the Company; (b) results from tasks assigned to Executive by the Company; or (c) results from the use of premises or personal property owned, leased or contracted by the Company. In addition, Executive agrees that "Works" means all tangible work product, whether patentable or copyrightable or not, developed or under development by Executive, solely or jointly with others, at any time during Executive's employment by Company, including but not limited to Invention descriptions, specifications, compilations, programs, documentation, manuals, flow charts, diagrams, drawings, photographs, designs, business or marketing plans, articles for publication, contracts and reports. Executive agrees that the Works are to be deemed "works-made-for-hire," and that Company shall be deemed the author and, shall own all proprietary rights in the Works. Executive hereby irrevocably assigns and agrees to assign to Company all of Executive's right, title and interest in the Works worldwide.

Executive further agrees to cooperate with Company as may be necessary or useful to obtain copyright, patent, and other proprietary property rights protection for the foregoing and to execute and deliver to Company such instruments as may reasonably be required to carry out the intent and purpose of this Agreement. Executive hereby waives and quitclaims to Company any and all claims of any nature whatsoever that Executive now or hereafter may have for infringement of any patent resulting from any patent applications for any Inventions or Works so assigned to Company.

Executive's obligation to assign shall not apply to any Invention about which Executive can prove all of the following: (a) it was developed entirely on Executive's own time; (b) no equipment, supplies, facility, or trade secret information of Company was used in its development; (c) it does not relate (i) directly to the business of Company or (ii) to the actual or demonstrably anticipated research or development of Company; and (d) it does not result from any work performed by Executive for Company. Executive will assign to Company or its designee all Executive's right, title, and interest in and to any and all Inventions full title to which may be required to be in the United States by any contract between Company and the United States or any of its agencies.

5.2 Existing Inventions.
Executive has attached as Exhibit A hereto a list to this Agreement describing all inventions belonging to Executive and made by Executive prior to Executive's

employment with Company that Executive wishes to have excluded from this Agreement; provided, however, that Executive shall not include, and hereby represents and warrants that Executive has not included any information on Exhibit A which, by its disclosure to Company, would violate any confidentiality obligation owed by Executive to any third party, including a prior employer. If such confidentiality obligations exist with respect to certain prior inventions, Executive shall inform Company in writing that Executive has not listed all prior inventions on Exhibit A for that reason. If no such list is attached, Executive represents, by Executive's signature below, that there are no such prior inventions. If, in the course of Executive's employment at Company, Executive uses or incorporates into any Company product, process, or machine, an invention owned by Executive or in which Executive has an interest, Employer is hereby granted and shall have an exclusive, royalty-free, irrevocable, worldwide license to make, have made, use, sell and import that invention without restriction as to the extent of Executive's ownership or interest. Executive represents that Executive has the full and exclusive right and power to grant to Company all of the foregoing license rights to all applicable inventions, and that Company's use of any such inventions will not violate any copyright, trade secret, or other proprietary right of any third party. Executive further agrees to indemnify, pay the defense costs of, and hold Company harmless from any damages or loss arising from a breach of the foregoing representation.

5.3 Documentation.
Executive will execute any proper oath or verify any proper document in connection with carrying out the terms of this Agreement. If, because of Executive's mental or physical incapacity or for any other reason whatsoever Company is unable to secure Executive's signature to apply for or to pursue any application for any United States or foreign patent or copyright covering inventions assigned to Company as stated above, Executive hereby irrevocably designates and appoints Company and its duly authorized officers and agents as Executive's agent and attorney in fact, to act for Executive and in Executive's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of U.S. and foreign patents and copyrights thereon with the same legal force and effect as if executed by Executive.

6. CONFIRMATION OF DISCLOSURES REQUIRED UNDER SECURITIES LAWS

Since January 1, 1995, Executive has not: (a) filed, or has had filed against Executive, nor is Executive not presently contemplating a filing of, nor is Executive aware that anyone else is presently contemplating a filing against Executive, of a petition under the federal bankruptcy laws or any state insolvency laws, nor has Executive had a receiver, fiscal agent, or similar officer appointed by a court for the business or property of Executive, or any partnership of which Executive was a general partner at or within two years before the time of such filing, or of any corporation or business association of which Executive was an executive officer at or within two years prior to such filing; (b) been convicted in a criminal proceeding or been named as a subject of a pending criminal proceeding (excluding traffic violations and other minor offenses); (c) been subject to any order, judgment, or decree (not subsequently reversed, suspended or

vacated) of any court of competent jurisdiction permanently or temporarily enjoining Executive from, or otherwise imposing limits or conditions on Executive's engaging in any securities, investment advisory, banking, insurance or other type of business or acting as an officer or director of a public company; or (d) been found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated any federal or state commodities, securities or unfair trade practices law, which such judgment or finding has not been subsequently reversed, suspended, or vacated.

7. NON-SOLICITATION AND NON-COMPETITION

7.1 Non-Solicitation.
While employed at Company and for a period of one (1) year from the termination of Executive's employment, Executive will not solicit or assist in the solicitation, induce or attempt to influence directly or indirectly any employee of Company to work for Executive or any other person or entity. For purposes of

this Section 7.1, to "solicit or assist in the solicitation" shall include without limitation the following acts: (a) disclosing to any third party the names, backgrounds or qualifications of any of Company's employees or otherwise identifying them as potential candidates for employment, or (b) personally or through any other person approaching, recruiting, or otherwise soliciting employees of Company to work for any other Company.

7.2 Non-Competition Agreement.
Executive agrees that because of the nature of Executive's association with Company Parties, Executive has and will have access to, have and will acquire, and will assist in developing confidential and proprietary information relating to the business and operations of Company Parties, which take place in every state of the United States. Executive acknowledge that such information is and will continue to be of central importance to the business of Company Parties, and that disclosure of such confidential information to others or the unauthorized use of such information by others would cause substantial loss and harm to Company Parties. Executive also acknowledges and agrees that an important part of Executive's duties will be to develop goodwill for Company through personal contacts with others and potential clients and affiliates, and there is a danger that this goodwill, a proprietary asset of Company, may follow Executive if and when Executive's relationship with Company is terminated. Executive accordingly agrees that in the event Executive's employment relationship expires or is terminated for any reason under Section 3 of this Agreement ("Termination"), Executive shall comply with the provisions of this Section 7.2.

Executive agrees that Executive shall not, during the term of Executive's employment with Company and for a period of one (1) year after Termination, directly or indirectly seek, solicit, enter into, or engage in, any employment, business, enterprise, agreement, or consulting arrangement with any other person or entity, that is at that time engaged in, or that Executive has reason to know has plans for future engagement in any direct or indirect competition with the business of Company or the demonstrated areas of future business interest of Company at any time during Executive's employment with Company, including, without limitation database design, delivery systems, customization routines, advertising sales and marketing techniques and

development of business plans within the United States. This noncompetition agreement shall apply throughout the United States.

Executive agrees that the provisions of this Section 7.2 do not impose an undue hardship on Executive and are not injurious to the public; that this provision is necessary to protect the business of Company Parties; that Company would not hire or continue to employ Executive if Executive did not agree to the provisions of this Section 7.2; that the scope of this Section 7.2 is reasonable in terms of length of time and geographic scope; and that adequate consideration supports this Section 7.2.

8. AMENDMENT AND WAIVER

This Agreement shall not be changed except in a writing signed by the parties. No waiver shall be binding unless executed in writing by the party making the waiver. No waiver shall be deemed a waiver of any other provision or constitute a continuing waiver. Any consent under this Agreement shall be in writing and shall be effective only to the extent specifically set forth in such writing. The consent of the Company may only be manifested by a resolution of the Board of Directors or by the signature of an officer to whom authority to modify this Agreement has been delegated.

9. ARBITRATION

The parties shall use reasonable good faith efforts to resolve any dispute relating to the subject matter of this Agreement or otherwise by negotiations or mediation. If negotiation and mediation fail, any party may submit any dispute concerning this Agreement to final and binding arbitration pursuant to the commercial rules of the American Arbitration Association. Arbitration shall take place in New York, New York. At the request of any party, the arbitrators, attorneys, parties to the arbitration, witnesses, experts, court reporters, or other persons present at the arbitration shall agree in writing to maintain the

strict confidentiality of the arbitration proceedings. Arbitration shall be conducted by a single, neutral arbitrator appointed in accordance with the rules of the American Arbitration Association. The award of the arbitrator shall be enforceable according to the applicable provisions of New York law. Notwithstanding the foregoing, a party may apply to a court of competent jurisdiction or the arbitrator for prejudgment remedies and emergency relief in the form of a temporary restraining order pending final determination of a claim through arbitration in accordance with this Section 8. The parties shall share the costs of arbitration equally. The arbitrator shall not have the power to award punitive, consequential, indirect, or special damages.

10. ATTORNEY'S FEES

If any action at law or inequity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs, and necessary disbursements, in addition to any other relief to which the party may be entitled.

11. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement respecting Executive's employment with the Company and supersedes the terms of any prior or contemporaneous employment or other offer, oral or written. All promises, conditions and terms of employment are only those as set forth herein. In addition, Executive hereby waives any right Executive may have to seek involuntary dissolution of the Company, and shall not join with any other shareholders of the Company to seek such relief.

IN WITNESS WHEREOF, the undersigned have executed this Executive Employment Agreement as of the date first referenced above.

"COMPANY"	"EXECUTIVE"
eMagin Corporation, a Nevada corporation	
By _____ (sign name)	_____ (sign name)
Joe Cheung, President _____ (print name and title)	Gary W. Jones _____ (print name)

By Executive's signature below, Executive represents that he does not, as of the Starting Date, hold any existing Inventions, as that term is defined in Section 5.1 of this Agreement.

_____
(sign name)

Gary W. Jones
_____
(print name)

Exhibit 10.4

EMAGIN CORPORATION

EXECUTIVE EMPLOYMENT AGREEMENT

Executive Name:	Susan K. Jones
Address:	8 Taconic View Court LaGrangeville, NY 12540
Title:	Executive Vice President/Corporate Secretary
Starting Salary:	See Section 2.1 below
Starting Date:	March 16, 2000

This Executive Employment Agreement (the "Agreement") is made at Hopewell Junction, New York as of the above date between EMAGIN CORPORATION, a Nevada corporation (the "Company"), and the above named executive ("Executive").

1. EMPLOYMENT

1.1. Time and Effort.

The Company hereby employs Executive and Executive accepts such employment on the terms contained in this Agreement. Executive shall have those responsibilities, duties, and authorities that are consistent with her titles. As Executive Vice President of the Company such duties and responsibilities will include, without limitation, management of activities which include marketing, strategic alliances, product and technology development, government business, corporate communications, and intellectual property. Subject to the foregoing, Executive shall perform such duties as the Company may direct. Executive shall report to the Board of Directors. Executive shall devote Executive's best efforts and entire time during normal business hours to the performance of Executive's duties under this Agreement. During Executive's employment Executive shall not engage in any business activities outside those of the Company to the extent that such activities would interfere with or prejudice Executive's obligations to the Company.

1.2. Service on Board of Directors or Advisory Board.

For as long as Executive is an employee of the Company, Executive shall receive no additional compensation for serving as a member of the Company's Board of Directors or Advisory Board.

2. COMPENSATION

2.1. Base Salary.

As compensation for performing services for the Company, Executive shall be entitled to retain his current salary as of the date of this Agreement. Executive will additionally receive annual salary increases based on no less than the average percent annual rates of salary increase given to Company employees who received salary increases during the preceding twelve (12) months. The first date of increase will be the choice of the Executive, but will remain that date in future years after selection. The formula for Executive's percentage salary increase shall be:

$$\frac{\text{(Sum of Annual Base Percentage Rate of Salary Increases for Staff Receiving Raises)}\ \%}{\text{(Number of Staff Receiving Raises)}}$$

2.2. Time Off.

Executive shall accrue personal time off for vacation, sick leave, or personal reasons upon completion of each month following the date of this Agreement in accordance with applicable Company policies.

2.3. Fringe Benefits.

During Executive's employment, Executive shall be entitled to participate, to the extent of Executive's eligibility, in the employee fringe benefits made available by the Company to its employees. Executive consents to the Company obtaining "key man" insurance on Executive for the Company's benefit and agrees to take any medical examinations required to obtain such insurance.

2.4. Business Expenses.

The Company shall pay or reimburse Executive for reasonable expenses incurred in connection with Executive's employment in accordance with applicable Company policies.

2.5. Stock Options.

Executive shall be eligible to participate in the Company's 2000 Stock Option Plan, as determined in the sole discretion of the Board of Directors or, if applicable, a stock option committee established thereby.

2.6. Bonus.

A performance bonus structure for Executive will be established on two criteria: (1) predetermined operating milestones, and (2) public market valuations. The exact terms and measurement criteria are subject to approval by the Company's Board of Directors.

3. TERM AND TERMINATION

3.1. Term

This Agreement shall commence on the date hereof and shall continue hereafter unless terminated pursuant to this Section 3 for a period of twenty-four (24) months.

3.2. Voluntary Termination.

If Executive voluntarily terminates Executive's employment with the Company, Executive shall cease to accrue salary, vacation, benefits and other compensation on the date of voluntary termination. Accrued benefits, if any, will be payable in accordance with applicable benefit plan provisions.

3.3. Termination Without Cause.

The Company may terminate the employment of Executive at any time without notice and without cause. Any substantial change in the executive's responsibilities orposition, or any decrease in base salary (other than any which may be assessed to the company as a whole) will be considered to effectively be the same as termination without cause, unless such change was voluntarily agreed to by Executive. In such event, Executive shall be entitled to twelve (12) months salary, based on Executive's monthly rate of base salary at the date of such termination The Company shall pay in one payment within ten (30) business days following the effective date of termination.Executive will otherwise cease to accrue salary and other benefits upon the date of termination, other than the Company's normal insurance policies for terminated employees . Accrued benefits, if any, will be payable in accordance with applicable benefit plan provisions. Notwithstanding the foregoing, the Company shall have no obligation to pay Executive any of such salary or such benefits that may accrue after the Company ceases to do business, liquidates substantially all of its assets (except in connection with a sale of substantially all of the assets of the Company as a going concern), or voluntarily or involuntarily becomes the subject of a proceeding under the Bankruptcy Code that is not dismissed within 60 days. Furthermore, subject to adjustments for stock splits, stock dividends, combinations or recapitalization, 35,000 shares of any founders' stock shares subject to any lockups will be immediately released from such restrictions and registered.

3.4. Disability.

Executive's employment shall terminate if Executive has been unable to perform substantially all duties assigned to Executive because of Executive's disability, illness, or other incapacity (other than a disability or incapacity that may exist on the date of this Agreement) and such inability has continued

for 90 days or such longer period as the Company in its sole discretion may determine ("Disability"). In such event, Executive will cease to accrue salary, benefits or other compensation on the 90th day of disability, illness, or other incapacity (or such later day as the Company has determined in its sole discretion). Executive shall be paid all earned salary, vacation, and other compensation on the 90th day (or such later day as the Company has determined in its sole discretion). Accrued benefits, if any, will be payable in accordance with applicable benefit plan provisions. In the event Executive's employment terminates under this Section 3.4, Executive may pursue long term disability benefits, if eligible, under any plan which the Company has provided for Executive.

3.5. Death.

Executive's employment shall terminate at death and Executive's estate shall not thereafter accrue salary or any other benefits or rights. All amounts due Executive shall be paid to Executive's estate in accordance with applicable Company policies and benefit plan provisions.

3.6. Effect of Termination without "Cause" on Employee Stock Options.

The Company hereby irrevocably offers to amend any stock options granted to Executive to permit the full exercise thereof following termination of Executive's employment without Cause (as defined in Section 3.7) or because of death or Disability. The Company hereby also irrevocably offers to amend any stock options granted to Executive to permit the full exercise thereof at any time after termination of Executive's employment without Cause or because of death or Disability to the same extent as if Executive's employment had not terminated. Executive or Executive's personal representative may accept either or both of such offers at any time before such options otherwise expire by giving written notice to the Company. To the extent that any options held by Executive are not incentive stock options within the meaning of Section 422 of the Internal Revenue Code, Executive hereby accepts both such offers.

3.7. Cause.

"Cause" means

(a) failure to devote substantially all of Executive's full professional time, attention, energies, and abilities to Executive's employment duties for the Company, which failure is not cured within two weeks after the Company gives Executive written notice of the failure;

(b) breach of the terms or conditions of Executive's confidentiality agreement with the Company, which breach is not cured within two weeks after the Company gives Executive written notice of the breach;

(c) inducement of any customer, consultant, employee, or supplier of the Company to breach any contract with the Company or cease its business relationship with the Company or any competition with the Company;

(d) willfully exceeding the scope of Executive's authority as a specifically delegated in writing from time to time by the Company's Board of Directors;

(e) willful, deliberate, and persistent failure by Executive to perform the duties and obligations of Executive's employment which are not remedied in a reasonable period of time after receipt of written notice from the Company;

(g) an act or acts of dishonesty undertaken by Executive intended to result in substantial gain or personal enrichment of Executive at the expense of the Company;

(h) material breach of a fiduciary or contractual duty to the Company;

(i) commission of an act that results in material harm to the goodwill or reputation of the Company; or

(j) conviction of any felony.

3.8. Termination for Cause.

To be deemed terminated for Cause, the Company shall have given Employee written notice stating the alleged Cause and shall have provided Employee an opportunity to present evidence to the Board of Directors, at the Company's offices on a date and time mutually convenient to the Board, no sooner than one and not later than two weeks after the foregoing notice, to refute the claim of Cause. Pending a hearing to determine whether Cause exists, the Company may suspend Executive with pay.

4. CONFIDENTIAL INFORMATION AND EMPLOYEE WORK PRODUCT

4.1. Non-Disclosure of Confidential Information and Materials.

Executive recognizes that the nature of Executive's employment and relationship with Company is such that Executive will have access to, and that there will be disclosed to Executive during the course of such relationship, Confidential Information owned by Company and its current and future affiliates (collectively referred to as "Affiliates"). Company and its Affiliates are collectively referred to in this Agreement as "Company Parties." Executive acknowledges that, except for Executive's relationship with Company and the duties assigned to Executive, Executive would not otherwise have access to Confidential Information.

4.2 Confidential Information.

As used in this Agreement, "Confidential Information" means all information, data, and materials relating to any business or other activity of Company Parties (and any third party which the Company is under an obligation to keep confidential and that is maintained by the Company as confidential) or used by Company Parties or such third parties in their business or other activity, either now or in the future, including without limitation: (i) trade secrets, inventions, mask works, ideas, formulas, methods, processes, prototypes, models, source and object codes, data, know-how, improvements, discoveries, designs, and techniques developed, created, used or practiced by, conceived of, or reduced to practice by any employee or contractor of Company Parties (including by Executive in the course of Executive's employment with Company); (ii) information pertaining to development and business plans for Company Parties; information relating to relationships between Company Parties and other entities, including licenses and other contracts; information relating to released or unreleased products, marketing or promotional information; and any confidential or proprietary information that is circulated within Company Parties; (iii) reports and data developed or acquired by Company Parties; and (iv) forms, policies, and other forms of written and non-written (including intangible) data, experience, and information, whether of a technical, operational, or economic nature relating to Company's business, services and employees.

"Confidential Information" includes the Confidential Information of third parties that Company Parties are required to keep confidential. "Confidential Information" shall not include that information defined as Confidential Information above that: (i) entered the public domain without any breach of any obligation owed to Company Parties under this Agreement; (ii) became known to Executive from a source other than Company Parties and other than by the breach of an obligation of confidentiality owed to Company under this Agreement or under an agreement between Company and a third party; (iii) was disclosed by Company to a third party without any obligation of confidence, or (iv) has been declassified by the company verbally, in documents not marked `company confidential', or through presentations to parties either without an NDA (non-disclosure agreement) or not under the specific confidential terms of an NDA; (a) Executive agrees that if Executive has any questions as to what comprises such Confidential Information, or to whom, if anyone, outside Company it may be disclosed, Executive will consult with Executive's manager at Company and (b) in the event of a disputed disclosure, Executive shall bear the burden of proof of demonstrating that the Confidential Information falls within one of the above exceptions.

4.3 Irreparable Harm.

Executive expressly acknowledges and agrees that disclosure of the Confidential Information of Company Parties would severely affect Company's business and/or the business of Company's clients and provide the recipient of the Confidential Information with a substantial and unfair competitive advantage. Therefore, during the term of Executive's relationship with Company and at all times thereafter, regardless of the circumstances surrounding any termination of this relationship, Executive shall keep secret all matters entrusted to Executive and shall not use or attempt to use for any purpose (other than the furtherance of Company's business while Executive am in the employ of Company), or disclose to any person, any Confidential Information of Company Parties.

4.4 Return of Materials Upon Termination of Employment.

Upon termination of Executive's relationship with Company for whatever reason or at anytime prior to termination at Company's request, Executive shall immediately surrender and turn over to Company all tangible Confidential Information, including without limitation any and all Company Parties' documents, any and all computer programs (whether or not completed or in use), any and all lab notebooks created by me in the course of Executive's employment, any and all operating manuals or similar materials which constitute the systems, policies, and procedures, and methods of doing business developed by Company Parties, any other material on any media containing or disclosing any Confidential Information. In addition, Executive shall turn over all keys, equipment, identification or credit cards and all other property belonging to Company Parties. Executive understands that all such documents and materials are the sole property of Company Parties and that Executive shall not make or retain any copies thereof on any media. Executive will carry out all of the foregoing obligations no later than the first business day after Executive leaves the employ of Company.

5. ASSIGNMENT OF INVENTIONS

5.1 Assignment of Inventions.

Executive agrees to make prompt and full disclosure to Company (or any persons designated by it), will hold in trust for the sole benefit of Company, and, without further compensation, will assign exclusively to Company worldwide all Executive's right, title, and interest in and to any and all inventions, discoveries, designs, developments, improvements, copyrightable material, and trade secrets (collectively herein "Inventions") that Executive, solely or jointly, may conceive, develop, or reduce to practice that (a) relates to the business of the Company or any customer of or supplier to the Company; (b) results from tasks assigned to Executive by the Company; or (c) results from the use of premises or personal property owned, leased or contracted by the Company. In addition, Executive agrees that "Works" means all tangible work product, whether patentable or copyrightable or not, developed or under development by Executive, solely or jointly with others, at any time during Executive's employment by Company, including but not limited to Invention descriptions, specifications, compilations, programs, documentation, manuals, flow charts, diagrams, drawings, photographs, designs, business or marketing plans, articles for publication, contracts and reports. Executive agrees that the Works are to be deemed "works-made-for-hire," and that Company shall be deemed the author and, shall own all proprietary rights in the Works. Executive hereby irrevocably assigns and agrees to assign to Company all of Executive's right, title and interest in the Works worldwide.

Executive further agrees to cooperate with Company as may be necessary or useful to obtain copyright, patent, and other proprietary property rights protection for the foregoing and to execute and deliver to Company such instruments as may reasonably be required to carry out the intent and purpose of this Agreement. Executive hereby waives and quitclaims to Company any and all claims of any nature whatsoever that Executive now or hereafter may have for infringement of any patent resulting from any patent applications for any Inventions or Works so assigned to Company.

Executive's obligation to assign shall not apply to any Invention about which Executive can prove all of the following: (a) it was developed entirely on Executive's own time; (b) no equipment, supplies, facility, or trade secret information of Company was used in its development; (c) it does not relate (i)

directly to the business of Company or (ii) to the actual or demonstrably anticipated research or development of Company; and (d) it does not result from any work performed by Executive for Company. Executive will assign to Company or its designee all Executive's right, title, and interest in and to any and all Inventions full title to which may be required to be in the United States by any contract between Company and the United States or any of its agencies.

Following the termination of Executive's employment with the Company, Executive shall make herself available to the Company in the defense of any patent owned by the Company in which she assisted, provided, however, that the Company shall allow Executive to fulfill any other obligations she may have at such time and that the Company shall pay the Executive compensation as an "expert", as well as her incurred expenses in assisting in such defense.

5.2 Existing Inventions.

Executive has attached as Exhibit A hereto a list to this Agreement describing all inventions belonging to Executive and made by Executive prior to Executive's employment with Company that Executive wishes to have excluded from this Agreement; provided, however, that Executive shall not include, and hereby represents and warrants that Executive has not included any information on Exhibit A which, by its disclosure to Company, would violate any confidentiality obligation owed by Executive to any third party, including a prior employer. If such confidentiality obligations exist with respect to certain prior inventions, Executive shall inform Company in writing that Executive has not listed all prior inventions on Exhibit A for that reason. If no such list is attached, Executive represents, by Executive's signature below, that there are no such prior inventions. If, in the course of Executive's employment at Company, Executive uses or incorporates into any Company product, process, or machine, an invention owned by Executive or in which Executive has an interest, Employer is hereby granted and shall have an exclusive, royalty-free, irrevocable, worldwide license to make, have made, use, sell and import that invention without restriction as to the extent of Executive's ownership or interest. Executive represents that Executive has the full and exclusive right and power to grant to Company all of the foregoing license rights to all applicable inventions, and that Company's use of any such inventions will not violate any copyright, trade secret, or other proprietary right of any third party. Executive further agrees to indemnify, pay the defense costs of, and hold Company harmless from any damages or loss arising from a breach of the foregoing representation.

5.3 Documentation.

Executive will execute any proper oath or verify any proper document in connection with carrying out the terms of this Agreement. If, because of Executive's mental or physical incapacity or for any other reason whatsoever Company is unable to secure Executive's signature to apply for or to pursue any application for any United States or foreign patent or copyright covering inventions assigned to Company as stated above, Executive hereby irrevocably designates and appoints Company and its duly authorized officers and agents as Executive's agent and attorney in fact, to act for Executive and in Executive's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of U.S. and foreign patents and copyrights thereon with the same legal force and effect as if executed by Executive.

6. CONFIRMATION OF DISCLOSURES REQUIRED UNDER SECURITIES LAWS

Since January 1, 1995, Executive has not: (a) filed, or has had filed against Executive, nor is Executive not presently contemplating a filing of, nor is Executive aware that anyone else is presently contemplating a filing against Executive, of a petition under the federal bankruptcy laws or any state insolvency laws, nor has Executive had a receiver, fiscal agent, or similar officer appointed by a court for the business or property of Executive, or any partnership of which Executive was a general partner at or within two years before the time of such filing, or of any corporation or business association of which Executive was an executive officer at or within two years prior to such filing; (b) been convicted in a criminal proceeding or been named as a subject of a pending criminal proceeding (excluding traffic violations and other minor offenses); (c) been subject to any order, judgment, or decree (not subsequently reversed, suspended or vacated) of any court of competent jurisdiction permanently or temporarily enjoining Executive from, or otherwise imposing

limits or conditions on Executive's engaging in any securities, investment advisory, banking, insurance or other type of business or acting as an officer or director of a public company; or (d) been found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated any federal or state commodities, securities or unfair trade practices law, which such judgment or finding has not been subsequently reversed, suspended, or vacated.

7. NON-SOLICITATION AND NON-COMPETITION

7.1 Non-Solicitation.

While employed at Company and for a period of one (1) year from the termination of Executive's employment, Executive will not solicit or assist in the solicitation, induce or attempt to influence directly or indirectly any employee of Company to work for Executive or any other person or entity. For purposes of this Section 7.1, to "solicit or assist in the solicitation" shall include without limitation the following acts: (a) disclosing to any third party the names, backgrounds or qualifications of any of Company's employees or otherwise identifying them as potential candidates for employment, or (b) personally or through any other person approaching, recruiting, or otherwise soliciting employees of Company to work for any other Company.

7.2 Non-Competition Agreement.

Executive agrees that because of the nature of Executive's association with Company Parties, Executive has and will have access to, have and will acquire, and will assist in developing confidential and proprietary information relating to the business and operations of Company Parties, which take place in every state of the United States. Executive acknowledge that such information is and will continue to be of central importance to the business of Company Parties, and that disclosure of such confidential information to others or the unauthorized use of such information by others would cause substantial loss and harm to Company Parties. Executive also acknowledges and agrees that an important part of Executive's duties will be to develop goodwill for Company through personal contacts with others and potential clients and affiliates, and there is a danger that this goodwill, a proprietary asset of Company, may follow Executive if and when Executive's relationship with Company is terminated. Executive accordingly agrees that in the event Executive's employment relationship expires or is terminated for any reason under Section 3 of this Agreement ("Termination"), Executive shall comply with the provisions of this Section 7.2.

Executive agrees that Executive shall not, during the term of Executive's employment with Company and for a period of one (1) year after Termination, directly or indirectly seek, solicit, enter into, or engage in, any employment, business, enterprise, agreement, or consulting arrangement with any other person or entity, that is at that time engaged in, or that Executive has reason to know has plans for future engagement in the design, development, production, marketing or sale of organic light emitting diode (OLED) microdisplays, OLED based microdisplay modules, OLED video headsets. This noncompetition agreement shall apply throughout the United States.

Executive agrees that the provisions of this Section 7.2 do not impose an undue hardship on Executive and are not injurious to the public; that this provision is necessary to protect the business of Company Parties; that Company would not hire or continue to employ Executive if Executive did not agree to the provisions of this Section 7.2; that the scope of this Section 7.2 is reasonable in terms of length of time and geographic scope; and that adequate consideration supports this Section 7.2.

8. AMENDMENT AND WAIVER

This Agreement shall not be changed except in a writing signed by the parties. No waiver shall be binding unless executed in writing by the party making the waiver. No waiver shall be deemed a waiver of any other provision or constitute a continuing waiver. Any consent under this Agreement shall be in writing and shall be effective only to the extent specifically set forth in such writing. The consent of the Company may only be manifested by a resolution of the Board of Directors or by the signature of an officer to whom authority to modify this Agreement has been delegated.

9. ARBITRATION

The parties shall use reasonable good faith efforts to resolve any dispute relating to the subject matter of this Agreement or otherwise by negotiations or mediation. If negotiation and mediation fail, any party may submit any dispute concerning this Agreement to final and binding arbitration pursuant to the commercial rules of the American Arbitration Association. Arbitration shall take place in New York, New York. At the request of any party, the arbitrators, attorneys, parties to the arbitration, witnesses, experts, court reporters, or other persons present at the arbitration shall agree in writing to maintain the strict confidentiality of the arbitration proceedings. Arbitration shall be conducted by a single, neutral arbitrator appointed in accordance with the rules of the American Arbitration Association. The award of the arbitrator shall be enforceable according to the applicable provisions of New York law. Notwithstanding the foregoing, a party may apply to a court of competent jurisdiction or the arbitrator for prejudgment remedies and emergency relief in the form of a temporary restraining order pending final determination of a claim through arbitration in accordance with this Section 8. The parties shall share the costs of arbitration equally. The arbitrator shall not have the power to award punitive, consequential, indirect, or special damages.

10. ATTORNEY'S FEES

If any action at law or inequity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs, and necessary disbursements, in addition to any other relief to which the party may be entitled.

11. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement respecting Executive's employment with the Company and supersedes the terms of any prior or contemporaneous employment or other offer, oral or written. All promises, conditions and terms of employment are only those as set forth herein. In addition, Executive hereby waives any right Executive may have to seek involuntary dissolution of the Company, and shall not join with any other shareholders of the Company to seek such relief.

IN WITNESS WHEREOF, the undersigned have executed this Executive Employment Agreement as of the date first referenced above.

"COMPANY"	"EXECUTIVE"
eMAgin Corporation, a Nevada corporation	
By	
----------	----------
(sign name)	(sign name)
----------	----------
(print name and title)	(print name)

By Executive's signature below, Executive represents that she does not, as of the Starting Date, hold any existing Inventions, as that term is defined in Section 5.1 of this Agreement.

(sign name)

(print name)

Exhibit 10.5

EMPLOYMENT AGREEMENT

This agreement is made and entered into as of September 11, 2000 between eMagin Corporation, a Delaware corporation (the "Company") and Andrew P. Savadelis (the "Executive").

WHEREAS, the Company desires to employ the Executive on the terms and subject to the conditions set forth herein.

WHEREAS, the Executive is willing to accept employment on such terms and conditions.

NOW, THEREFORE, in consideration of the mutual covenants contained in this agreement, the parties hereby agree as follows:

I. EMPLOYMENT

The Company agrees to employ the Executive and the Executive agrees to be employed by the Company for the term of employment as provided in Article II below and upon the terms and conditions provided in this agreement.

II. TERM

The Executive's term of employment under this Agreement shall commence on September 25, 2000 (the "Closing Date") and shall terminate as provided in Article VI hereof (the "Employment Period").

III. POSITION AND RESPONSIBILITIES

A. During the Employment Period, the Executive agrees to serve as Chief Financial Officer and Executive Vice President of Finance (the "CFO") of the Company and each subsidiary of the Company. The Executive shall report to the President and Chief Executive Officer (the "CEO") of the Company. The Executive shall have the normal duties, responsibilities and authority of the Chief Financial Officer subject to the power of the Company's Board of Directors (the "Board") to expand or limit such duties, responsibilities and authority and to override actions of the CEO.

B. During the Employment Period, the Executive shall devote his full business time, attention and efforts to the business and affairs of the Company and its subsidiaries and as otherwise approved by the Board. The Executive shall perform faithfully the duties which may be assigned to him from time to time by the CEO and/or Board and shall use his best efforts and skills to promote the Company's and its subsidiaries business. During the continuance of the Executive's employment hereunder, the Executive shall comply with all reasonable requests and directions from time to time

given to the Executive (consistent with his position as the CFO) by the CEO and/or Board and with all rules and regulations from time to time promulgated by the Company and its subsidiaries concerning its employees.

IV. COMPENSATION

For services rendered by the Executive hereunder, the Executive shall be compensated as follows:

A. Base Salary: The Company shall pay the Executive a fixed base salary of $250,000 per calendar year (or prorated portion thereof), or such higher rate as the CEO and/or Board may designate from time to time (the "Base Salary") payable in installments on the Company's regular payroll dates commencing on the Closing Date. If the Executive's Base Salary is increased, such increased Base Salary shall then constitute the Base Salary for purposes of this agreement..

B. Bonus: The Company shall pay the Executive a "non-milestone driven" bonus of $150,000 paid quarterly over (1) one year from the Closing Date.

C. Performance Bonus: The Executive shall be eligible for bonuses as well as other incentive compensation as may be authorized from time to time by the CEO and/or compensation committee of the Board. It is the intent of the Company to create a "milestone driven" bonus program for the executives, employees and Board of the Company, subject to Board approval.

D. Business Related Expenses: The Company shall reimburse the Executive in accordance with Company policy, for all actual documented out-of-pocket travel, entertainment, business and other expenses reasonably and properly incurred by the Executive in performing his duties and obligations under this agreement.

E. Stock Options: The Company shall, in connection with the Executive's employment under this agreement, grant to the Executive options to purchase that number of shares of the Company's Common Stock, par value $.01 per share (the "Common Stock"), as set forth on Annex A attached hereto. The options are subject to the terms and conditions of the Start-up Stock Option Plan attached hereto as Exhibit A, but in any case shall provide for accelerated vesting of all options in the case of a change in control as defined in Article VI. D. of this agreement. The Board intends to review the Executive's performance under this agreement with a view to the possible grant of additional stock options to the Executive on an annual basis to reward Executive for performance hereunder.

F. Relocation Assistance: As consideration for Executives relocating his residence closer to the Company (the "Local Residence"), the Company agrees to pay Executive a relocation allowance of $125,000 for any purpose the Executive determines. The relocation assistance will be distributed to Executive in the amounts of (i) $50,000 within ten (10) days of Closing Date and (ii) $75,000 upon completion of the purchase of

a Local Residence as long as the purchase occurs within one year of Closing Date. The relocation allowance may be subject to repayment if the Executive voluntarily leaves the Company within one year of Closing Date.

The Company agrees to reimburse Executive up to $2,500 per month for temporary lodging and miscellaneous expenses for up to twelve months from Closing Date or Local Residence relocation, which ever comes first. The Company will cover reasonable costs of packing and transporting effects from Executive's current residence.

G. General Benefits: During the term of this agreement, the Executive will be eligible to receive such benefits as are generally provided to executive officers of the Company as determined from time to time by the Board.

V RESTRICTIONS

A. Non-Interference and Non-Solicitation: During the Employment Period and for a period of one year thereafter, the Executive shall not directly or indirectly:

(i) encourage or solicit any officer or employee of the Company or any of its subsidiaries to leave the employ of any such entity;

(ii) interfere with or otherwise disrupt in any material respect the relationship(s) of the Company with any of its subsidiaries, customers, supplier, licensee, licensor, franchisee or other business relation (or potential relationship) of the Company or any subsidiary

(iii) While the restrictions set forth in this Article V are considered by both parties to be reasonable in all the circumstances, it is recognized that restrictions of the nature in question may fail for reasons unforeseen and accordingly, it is hereby declared and agreed that if any of such restrictions shall be adjudged to be void as going beyond what is reasonable in all circumstances for the protection of the interests of the Company and its subsidiaries but would be valid if part of the wording thereof were deleted and/or the

period (if any) thereof reduced and/or the area dealt with thereby reduced in scope, then said restrictions shall apply with such modifications as may be necessary to make them valid and effective.

VI TERMINATION

A. Termination Due to Death or Disability: The Company may terminate the Executive's employment hereunder due to Disability. For purposes of this agreement, "Disability: shall occur if the Executive is unable (other than by reason of death), as determined by the Board on good faith judgement, to perform the duties of his occupation hereunder for at least 180 days during any twelve month period. In the event of the

Executive's death or a termination of the Executive's employment by the Company due to Disability, the Executive, his estate or his legal representative, as the case may be, shall be entitled to:

(i) any Base Salary accrued or earned but not yet paid as of the date of termination;

(ii) any bonus earned but not yet paid;

(iii) reimbursement for all out-of-pocket expenses that are reimbursable pursuant to Article IV and that are incurred, but not yet paid; and

(iv) any short- or- long- term disability or death benefits provided under the Company's plans.

B. Resignation by Executive or Termination by the Company for Cause: The Executive may resign, or the Company may terminate the Executive's employment for Cause (as defined below) as provided in this Article VI. B. If the Executive resigns or the Company terminates the Executive's employment hereunder for Cause, the Executive shall be entitled to (i) reimbursement for all out-of-pocket expenses that are reimbursable pursuant to Article IV. and that are incurred, but not yet paid, prior to such termination of employment; and (ii) any base salary and bonuses accrued or earned but not yet paid as of the date of termination. All stock options held by Executive that have not yet vested as of the date of resignation or termination for cause shall be cancelled.

If the Executive is to be terminated for Cause as provided in this Article VI.B., the Executive shall be given (30) days written notice of such termination. Such written notice shall specify the particular act or acts, or failure to act, which is the basis for the termination of the Executive's employment for Cause. The Executive shall be given the opportunity during such thirty-day period to correct such act or failure to act. Upon failure of the Executive, within such thirty-day period, to correct such act or failure to act, or to provide the CEO and/or Board with a corrective action plan acceptable to the CEO and/or Board, the Executive's employment by the Company shall automatically be terminated under this Article VI.B. for Cause.

C. Termination Without Cause or Termination for Good Reason: The Company may terminate the Executive's employment hereunder without Cause (as defined below) and the Executive may terminate his employment hereunder for Good Reason (as defined below). If the Executive terminates his employment for Good Reason, or if the Company terminates the Executive's employment hereunder without Cause, other than due to death or Disability, the Executive shall be entitled to at least:

(i) an amount equal to his then annual base salary

(ii) reimbursement for all out-of-pocket expenses that are reimbursable pursuant to Article IV. and that are incurred, but not yet paid, prior to such termination of employment;

If the Executive intends to terminate his employment for Good

Reason, the Executive shall give written notice to the Company which notice shall specify the particular act or acts, or failure to act, which is or are the purported basis for the termination of his employment for Good Reason. The Company shall be given the opportunity for a period of (30) days after its receipt of such notice to correct such act or acts or failure to act. Upon failure of the Company, within such thirty day period, to correct such act or acts, or failure to act, the Executive's employment by the Company shall automatically be terminated under this Article VI.C for Good Reason.

For purposes of this Agreement, "Cause" means

(a) breach of the terms or conditions of Executive's confidentiality agreement with the Company, which breach is not cured within thirty days after the Company gives Executive written notice of the breach;

(b) unexcused absences in excess of five (5) days in the aggregate within any one-year period (with absences for bona fide illness considered excused);

(c) inducement of any customer, consultant, employee, or supplier of the Company to breach any contract with the Company or cease its business relationship with the Company or any competition with the Company;

(d) willfully exceeding the scope of Executive's authority as a specifically delegated in writing from time to time by the Company's Board of Directors;

(e) willful, deliberate, and persistent failure by Executive to perform the duties and obligations of Executive's employment which are not remedied in thirty days receipt of written notice from the Company;

(f) an act or acts of dishonesty undertaken by Executive intended to result in substantial gain or personal enrichment of Executive at the expense of the Company;

(g) material breach of a fiduciary or contractual duty to the Company;

(h) commission of an act that results in material harm to the goodwill or reputation of the Company; or

(i) conviction or a plea of guilty of any felony.

Termination for Cause.

(i) To be deemed terminated for Cause, the Company shall have given Employee written notice stating the alleged Cause and shall have provided Employee an opportunity to present evidence to the Board of Directors, at the Company's offices on a date and time mutually convenient to the Board, no sooner than one and not later than two weeks after the foregoing notice, to refute the claim of

Cause. Pending a hearing to determine whether Cause exists, the Company may suspend Executive with pay.

For purposes of this Agreement, "Good Reason" means and shall be deemed to exist if, without prior written consent of the Executive, the Executive:

(i) Is assigned any duties or responsibilities inconsistent in any material respect with the scope of the duties or responsibilities associated with the Executive's titles or positions, as set forth and described in Article III of this Agreement.

(ii) Suffers a reduction in the duties, responsibilities or authority associated with his titles or positions, as set forth and described in Article III of this Agreement.

(iii) Is not appointed to, or is removed from the offices provided for in Article III of this agreement

(iv) The Executive's compensation is reduced in violation of Article IV hereof.

(v) Good Reason shall also mean any other breach of this agreement by the Company.

D. Termination Upon Change in Control: In addition to the Executive's rights under Article VI.C. of this agreement in the event of a Change in Control (as defined below) of the Company and the termination of the Executive's employment by Executive under this paragraph, the Executive shall be entitled to the severance compensation set forth in Article VI.C. of this Agreement, plus any bonus earned but not yet paid. The following shall constitute termination under this paragraph:

The Executive terminates his employment under this Agreement pursuant to a written notice delivered to the CEO and/or Board within (3) twelve months after the occurrence of the Change in Control.

For purposes of this paragraph, the term "Change in Control" shall mean the following occurring after the date of this agreement:

(i) The merger or consolidation of the Company with or into another person or the merger or consolidation of another person with or into the Company, or the sale of all or substantially all the assets of the Company to another person in which the securities of the Company that are outstanding immediately prior to such transaction and which represent

100% of the aggregate power of the Common Stock are changed into or exchanged for cash, securities or property); or

(ii) The consummation of a merger or consolidation of the Company with or into another entity or other corporate reorganization, if more than 50 % of the combined voting power of the continuing or surviving entities securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or their reorganization.

In the event that it is determined that any payment or distribution of any type (other than gains from the exercise of options and sale of subsequent stock) to or for the benefit of the Executive made by the Company, by any of its affiliates, by any person who acquires ownership or effective control of the Company or ownership of a substantial portion of the Company's assets (within the meaning of section 280G of the Internal Revenue Code of 1986 as amended (the "Code"), and such regulation thereunder, or by an affiliate of such person, whether paid or payable or distributed or distributable pursuant to the terms of this agreement or otherwise (the "Total Payments") , would be subject to the excise tax imposed by section 4999 of the Code or any interest or penalties with respect to such excise tax collectively referred to as (the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount that shall fund the payment by the Executive of any Excise tax on the Total Payments as well as all income taxes imposed on the Gross-Up Payment, any Excise Tax imposed on the Gross-Up Payment and any interest or penalties imposed with respect to taxes on the Gross-Up Payment or any Excise Tax.

E. Other: Upon termination of the Executive's employment pursuant to this Article, the Executive (or if applicable, his estate) shall immediately deliver to the Company all documents, correspondence, memoranda, notes, records, reports, plans, designs, studies and any other reports or items made or received by the Executive in connection with his employment with the Company, and all

computer equipment, disks, software, keys, credit cards, books and other property of or relating to the Company or any of its subsidiaries then in the Executive's (or if applicable, his estate's) possession.

After any termination of the Executive's employment hereunder, the Executive shall not at any time thereafter represent himself as being in any way connected with or interested in the business of or employed by the Company or any of its subsidiaries, or use for trade or other purposes the name of the Company or of its subsidiaries or any name capable of confusion therewith.

VII CONFIDENTIAL INFORMATION AND EMPLOYEE WORK PRODUCT

A. Non-Disclosure of Confidential Information and Materials.

Executive recognizes that the nature of Executive's employment and relationship with Company is such that Executive will have access to, and that there will be disclosed to

Executive during the course of such relationship, Confidential Information owned by Company and its current and future affiliates (collectively referred to as "Affiliates"). Company and its Affiliates are collectively referred to in this Agreement as "Company Parties." Executive acknowledges that, except for Executive's relationship with Company and the duties assigned to Executive, Executive would not otherwise have access to Confidential Information.

B Confidential Information.

As used in this Agreement, "Confidential Information" means all information, data, and materials relating to any business or other activity of Company Parties (and any third party which the Company is under an obligation to keep confidential and that is maintained by the Company as confidential) or used by Company Parties or such third parties in their business or other activity, either now or in the future, including without limitation: (i) trade secrets, inventions, mask works, ideas, formulas, methods, processes, prototypes, models, source and object codes, data, know-how, improvements, discoveries, designs, and techniques developed, created, used or practiced by, conceived of, or reduced to practice by any employee or contractor of Company Parties (including by Executive in the course of Executive's employment with Company); (ii) information pertaining to development and business plans for Company Parties; information relating to relationships between Company Parties and other entities, including licenses and other contracts; information relating to released or unreleased products, marketing or promotional information; and any confidential or proprietary information that is circulated within Company Parties; (iii) reports and data developed or acquired by Company Parties; and (iv) forms, policies, and other forms of written and non-written (including intangible) data, experience, and information, whether of a technical, operational, or economic nature relating to Company's business, services and employees. "Confidential Information" includes the Confidential Information of third parties that Company Parties are required to keep confidential. "Confidential Information" shall not include that information defined as Confidential Information above that: (i) entered the public domain without any breach of any obligation owed to Company Parties under this Agreement; (ii) became known to Executive from a source other than Company Parties and other than by the breach of an obligation of confidentiality owed to Company under this Agreement or under an agreement between Company and a third party; or (iii) was disclosed by Company to a third party without any obligation of confidence; or (iv) is required by law to be disclosed; provided, however, that (a) Executive agrees that if Executive has any questions as to what comprises such Confidential Information, or to whom, if anyone, outside Company it may be disclosed, Executive will consult with Executive's manager at Company and (b) in the event of a disputed disclosure, Executive shall bear the burden of proof of demonstrating that the Confidential Information falls within one of the above exceptions.

C Irreparable Harm.

Executive expressly acknowledges and agrees that disclosure of the Confidential Information of Company Parties would severely affect Company's business and/or the business of Company's clients and provide the recipient of the Confidential Information with a substantial and unfair competitive advantage. Therefore, during the term of

Executive's relationship with Company and at all times thereafter, regardless of the circumstances surrounding any termination of this relationship, Executive shall keep secret all matters entrusted to Executive and shall not use or attempt to use for any purpose (other than the furtherance of Company's business while Executive am in the employ of Company), or disclose to any person, any Confidential Information of Company Parties.

D Return of Materials Upon Termination of Employment.
Upon termination of Executive's relationship with Company for whatever reason or at anytime prior to termination at Company's request, Executive shall immediately surrender and turn over to Company all tangible Confidential Information, including without limitation any and all Company Parties' documents, any and all computer programs (whether or not completed or in use), any and all lab notebooks created by me in the course of Executive's employment, any and all operating manuals or similar materials which constitute the systems, policies, and procedures, and methods of doing business developed by Company Parties, any other material on any media containing or disclosing any Confidential Information. In addition, Executive shall turn over all keys, equipment, identification or credit cards and all other property belonging to Company Parties. Executive understands that all such documents and materials are the sole property of Company Parties and that Executive shall not make or retain any copies thereof on any media. Executive will carry out all of the foregoing obligations no later than the first business day after Executive leaves the employ of Company.

VIII ASSIGNMENT OF INVENTIONS

A Assignment of Inventions.
Executive agrees to make prompt and full disclosure to Company (or any persons designated by it), will hold in trust for the sole benefit of Company, and, without further compensation, will assign exclusively to Company worldwide all Executive's right, title, and interest in and to any and all inventions, discoveries, designs, developments, improvements, copyrightable material, and trade secrets (collectively herein "Inventions") that Executive, solely or jointly, may conceive, develop, or reduce to practice that (a) relates to the business of the Company or any customer of or supplier to the Company; (b) results from tasks assigned to Executive by the Company; or (c) results from the use of premises or personal property owned, leased or contracted by the Company. In addition, Executive agrees that "Works" means all tangible work product, whether patentable or copyrightable or not, developed or under development by Executive, solely or jointly with others, at any time during Executive's employment by Company, including but not limited to Invention descriptions, specifications, compilations, programs, documentation, manuals, flow charts, diagrams, drawings, photographs, designs, business or marketing plans, articles for publication, contracts and reports. Executive agrees that the Works are to be deemed "works-made-for-hire," and that Company shall be deemed the author and, shall own all proprietary rights in the Works. Executive hereby irrevocably assigns and agrees to assign to Company all of Executive's right, title and interest in the Works worldwide.

Executive further agrees to cooperate with Company as may be necessary or useful to obtain copyright, patent, and other proprietary property rights protection for the foregoing and to execute and deliver to Company such instruments as may reasonably be required to carry out the intent and purpose of this Agreement. Executive hereby waives and quitclaims to Company any and all claims of any nature whatsoever that Executive now or hereafter may have for infringement of any patent resulting from any patent applications for any Inventions or Works so assigned to Company.

Executive's obligation to assign shall not apply to any Invention about which Executive can prove all of the following: (a) it was developed entirely on Executive's own time; (b) no equipment, supplies, facility, or trade secret information of Company was used in its development; (c) it does not relate (i) directly to the business of Company or (ii) to the actual or demonstrably anticipated research or development of Company; and (d) it does not result from any work performed by Executive for Company. Executive will assign to Company or its designee all Executive's right, title, and interest in and to any and all Inventions full title to which may be required to be in the United States by any contract between Company and the United States or any of its agencies.

B Existing Inventions.
Executive has attached as Exhibit B hereto a list to this Agreement describing all inventions belonging to Executive and made by Executive prior to Executive's employment with Company that Executive wishes to have excluded from this Agreement; provided, however, that Executive shall not include, and hereby represents and warrants that Executive has not included any information on Exhibit B which, by its disclosure to Company, would violate any confidentiality obligation owed by Executive to any third party, including a prior employer. If such confidentiality obligations exist with respect to certain prior inventions, Executive shall inform Company in writing that Executive has not listed all prior inventions on Exhibit B for that reason. If no such list is attached, Executive represents, by Executive's signature below, that there are no such prior inventions. If, in the course of Executive's employment at Company, Executive uses or incorporates into any Company product, process, or machine, an invention owned by Executive or in which Executive has an interest, Company is hereby granted and shall have an exclusive, royalty-free, irrevocable, worldwide license to make, have made, use, sell and import that invention without restriction as to the extent of Executive's ownership or interest. Executive represents that Executive has the full and exclusive right and power to grant to Company all of the foregoing license rights to all applicable inventions, and that Company's use of any such inventions will not violate any copyright, trade secret, or other proprietary right of any third party. Executive further agrees to indemnify, pay the defense costs of, and hold Company harmless from any damages or loss arising from a breach of the foregoing representation.

C Documentation.
Executive will execute any proper oath or verify any proper document in connection with carrying out the terms of this Article VIII. If, because of Executive's mental or physical incapacity Company is unable to secure Executive's signature to apply for or to pursue any application for any United States or foreign patent or copyright covering inventions

assigned to Company as stated above, Executive hereby irrevocably designates and appoints Company and its duly authorized officers and agents as Executive's agent and attorney in fact, to act for Executive and in Executive's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of U.S. and foreign patents and copyrights thereon with the same legal force and effect as if executed by Executive.

D. CONFIRMATION OF DISCLOSURES REQUIRED UNDER SECURITIES LAWS
Since January 1, 1995, Executive has not: (a) filed, or has had filed against Executive, nor is Executive presently contemplating a filing of, nor is Executive aware that anyone else is presently contemplating a filing against Executive, of a petition under the federal bankruptcy laws or any state insolvency laws, nor has Executive had a receiver, fiscal agent, or similar officer appointed by a court for the business or property of Executive, or any partnership of which Executive was a general partner at or within two years before the time of such filing, or of any corporation or business association of which Executive was an executive officer at or within two years prior to such filing; (b) been convicted in a criminal proceeding or been named as a subject of a pending criminal proceeding (excluding traffic violations and other minor offenses); (c) been subject to any order, judgment, or decree (not subsequently reversed, suspended or vacated) of any court of competent jurisdiction permanently or temporarily enjoining Executive from, or otherwise imposing limits or conditions on Executive's engaging in any securities, investment advisory, banking, insurance or other type of business or acting as an officer or director of a public company; or (d) been found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated any federal or state commodities, securities or unfair trade practices law, which such judgment or finding has not been subsequently reversed, suspended, or vacated.

IX NON-SOLICITATION AND NON-COMPETITION

A Non-Solicitation.
While employed at Company and for a period of one (1) year from the termination of Executive's employment, Executive will not solicit or assist in the solicitation, induce or attempt to influence directly or indirectly any employee of Company to work for Executive or any other person or entity. For purposes of

this Article IX, to "solicit or assist in the solicitation" shall include without limitation the following acts: (a) disclosing to any third party the names, backgrounds or qualifications of any of Company's employees or otherwise identifying them as potential candidates for employment, or (b) personally or through any other person approaching, recruiting, or otherwise soliciting employees of Company to work for any other Company.

B Non-Competition Agreement.

Executive agrees that because of the nature of Executive's association with Company Parties, Executive has and will have access to, have and will acquire, and will assist in developing confidential and proprietary information relating to the business and operations of Company Parties, which take place in every state of the United States. Executive acknowledge that such information is and will continue to be of central importance to the business of Company Parties, and that disclosure of such confidential information to others or the unauthorized use of such information by others would cause substantial loss and harm to Company Parties. Executive also acknowledges and agrees that an important part of Executive's duties will be to develop goodwill for Company through personal contacts with others and potential clients and affiliates, and there is a danger that this goodwill, a proprietary asset of Company, may follow Executive if and when Executive's relationship with Company is terminated. Executive accordingly agrees that in the event Executive's employment relationship expires or is terminated for any reason under Article VI of this Agreement ("Termination"), Executive shall comply with the provisions of this Article IX.

Executive agrees that Executive shall not, during the term of Executive's employment with Company and for a period of one (1) year after Termination, directly or indirectly seek, solicit, enter into, or engage in, any employment, business, enterprise, agreement, or consulting arrangement with any other person or entity, that is at that time engaged in, or that Executive has reason to know has plans for future engagement in any direct or indirect competition with the business of Company or the demonstrated areas of future business interest of Company at any time during Executive's employment with Company, including, without limitation database design, delivery systems, customization routines, advertising sales and marketing techniques and development of business plans within the United States. This noncompetition agreement shall apply throughout the United States.

Executive agrees that the provisions of this Article IX do not impose an undue hardship on Executive and are not injurious to the public; that this provision is necessary to protect the business of Company Parties; that Company would not hire or continue to employ Executive if Executive did not agree to the provisions of this Article IX; that the scope of this Article IX is reasonable in terms of length of time and geographic scope; and that adequate consideration supports this Article IX.

X ARBITRATION

The parties shall use reasonable good faith efforts to resolve any dispute relating to the subject matter of this Agreement or otherwise by negotiations or mediation. If negotiation and mediation fail, any party may submit any dispute concerning this Agreement to final and binding arbitration pursuant to the commercial rules of the American Arbitration Association. Arbitration shall take place in New York, New York. At the request of any party, the arbitrators, attorneys, parties to the arbitration, witnesses, experts, court reporters, or other persons present at the arbitration shall agree in writing to maintain the strict confidentiality of the arbitration proceedings. Arbitration shall be

conducted by a single, neutral arbitrator appointed in accordance with the rules of the American Arbitration Association. The award of the arbitrator shall be enforceable according to the applicable provisions of New York law. Notwithstanding the foregoing, a party may apply to a court of competent jurisdiction or the arbitrator for prejudgment remedies and emergency relief in the form of a temporary restraining order pending final determination of a claim through arbitration in accordance with this Artilce X. The parties shall share

the costs of arbitration equally. The arbitrator shall not have the power to award punitive, consequential, indirect, or special damages.

XI MISCELLANEOUS PROVISIONS

A. Entire Agreement: This Agreement contains all the understandings between the parties hereto and supersedes all prior discussions and agreements between the Company, on the one hand, and the Executive, on the other hand, with respect to the subject matter hereof.

B. Modification; Waiver: This Agreement may not be modified, amended or supplemented except in writing and signed by the party against whom any modification, amendment or supplement is sought. No term or condition of this Agreement may be, or will be deemed to have been, waived except in writing by the party charged with the waiver. A waiver shall operate only as to the specific term or condition waived and will not constitute a waiver for the future act on anything other than that which is specifically waived.

C. Severability: If any one or more of the provisions contained in this agreement will be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceablilty will not affect any other provision hereof.

D. Assignment: This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, the Company and their respective heirs, successors and assigns, except that Executive may not assign his rights or delegate his obligations hereunder without the prior written consent of the Company.

E. Governing Law: The validity and effects of this Agreement shall be governed by and construed and enforceable in accordance with the laws of the State of New York without giving effect to its principals of conflicts of laws.

F. Survivorship: The respective right and obligations of the parties hereunder that specifically provide for such survival shall survive any termination of this Agreement and the Executive's Employment Period hereunder for any reason to the extent necessary to the intended provision of such right and the untended performance of such obligations.

G. ATTORNEY'S FEES

If any action at law or inequity is necessary to enforce or interpret the terms of this Agreement, each party shall pay its attorney's fees, and costs and expenses..

H. Notices: Any notice or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be sent by registered or certified mail, return receipt requested, postage prepaid, by hand delivery as follows:

If to the Company:

eMagin Corporation
2070 Route 52
Hopewell Junction, NY 12533
Attention: Gary W. Jones, President/CEO

If to the Executive:

Mr. Andrew P. Savadelis
44 Red Oak Way
Belle Mead, NJ 08502

Any notice or communication shall be deemed given or made when receipt acknowledge of notice by methods aforementioned is received.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Executive has hereunto set his hand as of the day and year first above written.

eMagin Corporation

By:

Gary W. Jones
President/CEO

By:

Andrew P. Savadelis

Annex A:

OPTIONS:

As of the Closing Date, Executive shall be granted options for the purchase of 250,000 shares of Common Stock of the Company at an exercise price equal to the fair market value of the stock on the date of grant. The options shall have a term of (10) ten years. 50,000 options shall vest and become exercisable (6) six months after the Closing Date, 200,000 options shall vest monthly over a four year period for each uninterrupted month of full time employment beginning (6) six months after the Closing Date. Upon Executive's termination of employment with the Company for any reason, the Executive shall have 90 calendar days to exercise all vested options. Additional details of the plan governing the stock options are attached hereto as Exhibit A.

30% of the Executive's vested options at the time of employment termination will be subject to lock-up for up to one year at the discretion of the Company. These locked options will be subject to forfeiture in the event the Executive makes any verifiable public or private statements regarding the company (that is not pre-approved and documented by the company for each individual disclosure event) during the year following the Executive's exit from the company. Following release from the Company's lock-up period, the Executive will have 90 days to exercise any options.

Exhibit B

Inventions of Executive prior to employment with eMagin Corporation.

NONEXCLUSIVE FIELD OF USE LICENSE AGREEMENT

Relating to OLED Technology

for

miniature, high resolution displays

This Agreement is effective as of this 29th day of March, 1999 ("Effective Date") by and between the Eastman Kodak Company, a New Jersey corporation with its principal office at 343 State Street, Rochester, New York 14650 ("Kodak") and FED Corporation, a Delaware corporation with its principal office at 1580 Route 52, Hopewell Junction, New York 12533 ("FED").

1.0 BACKGROUND

1.1 Kodak has developed and continues to develop patents and know-how related to organic light-emitting diode ("OLED ") technology for use in a number of different display applications.

1.2 FED has by evaluation (the "Evaluation") demonstrated to Kodak FED's successful development of certain non-direct view, head mounted or weapon mounted displays pursuant to the Evaluation Agreement between the parties dated March 31, 1997 (the "Evaluation Agreement"), and FED has acquired certain rights from Kodak in Kodak's OLED technology for use in such non-direct view, head mounted or weapon mounted displays pursuant to the parties' Nonexclusive Field of Use License Agreement relating to OLED Technology for Non-Direct View, Head Mount Displays dated April 1, 1998 (the "Non-Direct View, Head Mount License").

1.3 FED is now interested in acquiring certain additional rights from Kodak in Kodak's OLED technology for use in miniature, high resolution displays.

1.4 As partial consideration in return for acquiring such rights in Kodak's OLED technology for use in miniature, high resolution displays, FED is willing to provide Kodak for use in any field certain rights under any patents or know-how that FED develops relating to OLED technology.

1.5 Subject to the terms and conditions of this Agreement, each party is willing to grant the other party the foregoing rights as more specifically described herein.

THEREFORE the parties agree as follows:

2.0 DEFINITIONS

2.1 "Affiliate(s)" shall mean any company, partnership, joint venture, or other entity which directly or indirectly controls, is controlled by or is under common control with a party. Control shall mean the possession of fifty percent (50%) or more of the voting share capital or the power to direct or cause the direction of the management and policies of the controlled entity, whether through the ownership of shares, by contract or otherwise, but only for so long as such control shall exist.

2.2 "Confidential Information" shall mean any information related to OLED Technology disclosed in writing or other tangible form by either party or its Affiliates to the other party, and marked by the disclosing party with the legend "Confidential" or other similar legend sufficient to identify such information as proprietary business or technical information of the disclosing party.

2.3 "FED Licensed Products" shall mean any tools, products, method, procedure, process, or other subject matter in and only in the Field of Use whose manufacture, use, practice, or sale would constitute, but for the license granted to FED and its Affiliates

pursuant to this Agreement, an infringement of any claim in "the Kodak Patent Rights" or an infringement of Kodak's Know-how. "FED Licensed Products" shall include spare parts solely for use in miniature, high resolution displays and shall not include spare parts or components for use in displays outside the Field of Use. For the purposes of this Agreement, FED Licensed Products shall be classified as:

2.3.1 "Monochrome - Phase 1 FED Licensed Products" referring to FED Licensed Products which (i) incorporate a single color organic electroluminescent emitter to emit light at-one color wavelength, or (ii) incorporate two or more different single color organic electroluminescent emitters, each of which emits light at a different color wavelength.

2.3.2 "Color - Phase 2 and Phase 3 FED Licensed Products" referring to FED Licensed Products which (i) incorporate a white light organic electroluminescent emitter and a color filter array, or (ii) incorporate a Blue/Near UV light organic electroluminescent emitter and a color changing medium.

2.3.3 "Color - Phase 4 FED Licensed Products" referring to FED Licensed Products which incorporate in a single pixel a patterned multicolor organic electroluminescent emitter.

2.4 "FED Patent Rights" shall mean any and all patents in any country issued to FED or its Affiliates and patents issuing from patent applications filed by FED or its Affiliates through March 31, 2000, which relate to OLED Technology, under which and to the extent to which FED or its Affiliates has the right to grant licenses of the scope granted herein without payment of royalties or other consideration to third parties, except for payments to third parties for inventions made by such third parties while employed by FED or its Affiliates.

2.5 "Field of Use" shall mean all activities and purposes related to the design, development, manufacture, use, sale, marketing and/or distribution of miniature, high resolution displays. "Miniature, high resolution displays" are displays which:

2.5.1 have a diagonal size of less than two inches;

2.5.2 have a pixel count of more than 200K and a pitch of less than 24 microns;

2.5.3 are not directly viewable by the unaided eye without an associated optical system, which means that the individual picture elements or full spatial images are not discernible by the average adult without optical assistance; and

2.5.4 are monochrome and/or color, emissive active matrix displays, preferably, but not limited to, active matrix displays on single crystalline silicon substrates (but not passive matrix displays).

2.6 "Know-how" shall mean any and all rights, including without limitation, trade secret and other intellectual property rights (other than trademark rights) under which and to the extent a party or its Affiliates has the right to grant licenses of the scope granted herein without payment of royalties or other consideration to third parties, in any technical information, know-how, process, procedure, composition, device, method, formula, protocol, technique, software, design, drawing or data which:

2.6.1 relate to OLED Technology;

2.6.2 are reduced to practice prior to March 31, 2000; and

2.6.3 are not disclosed in Patent Rights owned by such party or its Affiliates, but which are useful in the commercial practice of inventions covered by such

Patent Rights.

Notwithstanding the foregoing, Know-how shall include only that OLED Technology which the party who originates such Know-how reasonably considers necessary for the practice of inventions within the scope of the license of its Patent Rights granted under this Agreement to the other party and (i) for which the other party bears the expense of the originating party's disclosure pursuant to Section 7 of this Agreement, or (ii) was provided to FED by Kodak under the Evaluation Agreement.

2.7 "Kodak Licensed Products" shall mean any tools, products, method, procedure, process, or other subject matter whose manufacture, use, practice, or sale would constitute, but for the license granted to Kodak pursuant to this Agreement, an infringement of any claim in the "FED Patent Rights" or an infringement of FED's Know-how. "Kodak Licensed Products" shall include spare parts and components for use in displays inside or outside the Field of Use.

2.8 "Kodak Patent Rights" shall mean any and all rights in and to: the patents and patent applications described on Exhibit A attached hereto and incorporated herein by reference; all patents and patent applications filed in foreign countries corresponding to any of the foregoing patents and patent applications; all foreign counterparts thereof; any divisions, substitutions, re-examinations, and continuations thereof; any patents issuing on any of the foregoing; and all reissues, renewals and extensions thereof. Continuations-in-part of any of the foregoing applications and patents issuing on such continuations-in-part, related foreign patents and applications and patents of addition, and all reissues, renewals and extensions of such patents and patent applications, shall also be within the Kodak Patent Rights, to the extent the same claim subject matter disclosed in a patent or patent application described on Exhibit A. "Kodak Patent Rights" shall also include any and all patents issued to Kodak or its Affiliates and patents issuing from patent applications filed by Kodak or its Affiliates through March 31, 2000, which relate to OLED Technology, under which and to the extent to which Kodak or its Affiliates has the right to grant licenses of the scope granted herein without payment of royalties or other consideration to third parties, except for payments to third parties for inventions made by such third parties while employed by Kodak or its Affiliates.

2.9 "Licensed Products" shall mean the FED Licensed Products and/or the Kodak Licensed Products as determined by the context.

2.10 "Net Sales" shall mean the gross amounts received from sales or other transfers of Licensed Products for monetary or non-monetary value to a third party (excluding sales or transfers of Licensed Products from a party to its Affiliates), less (a) actual amounts allowed, paid out or credited due to returns, and replacements, and (b) separately stated and billed, sales, use and/or other excise taxes or duties actually paid. For sales or other transfers of Licensed Products involving, in whole or in part, non-monetary value, the Net Sales for purposes of such transfer shall be considered to be the average amount received for the sale of the same or substantially the same Licensed Product during the then current calendar quarter or if no such amount can reasonably be established, the party making such transfer shall notify the other party of such transfer and the parties shall decide upon a mutually acceptable amount for such transfer.

2.11 "OLED Technology" shall mean:

(a) a technology (sometimes also referred to as organic electroluminescence technology or organic EL technology) for displaying image or information patterns using organic electroluminescent multilayer thin film structures of (i) molecular organic and polymeric materials (as used for emitter layers, hole injection and transport layers, and

electron injection and transport layers), and (ii) an electrode carried on a substrate, including without limitation, silicon, silicon on quartz, or other solid state materials, such multilayer thin film structures exhibiting the electrical rectification characteristics of a diode and emitting light under electrical bias as a function of the amount of current passing through the structure;

(b) cells, panels, or modules fabricated from such organic electroluminescent multilayer thin film structures, including methods of making such cells, panels or modules;

(c) driving circuit devices for, and methods of, driving such cells, panels or modules;

(d) apparatus equipped with or incorporating therein such cells, panels, or modules; and/or.

(e) color filter arrays, color changing media or patterned multicolor organic electroluminescent emitters for use in color organic electroluminescent multilayer thin film structures, including methods of making such arrays, media, or emitters.

2.12 "Patent Rights" shall mean the FED Patent Rights and/or Kodak Patent Rights as determined by the context.

2.13 "Person-day(s)" shall mean any calendar day or part thereof during which a single employee of a party conducts at least four (4) hours of work for the other party pursuant to this Agreement.

3.0 LICENSE GRANTS

3.1 Grant by Kodak. Subject to the terms of this Agreement and FED's successful completion of the corresponding phase(s) of the Evaluation specified in the Evaluation Agreement, Kodak hereby grants to FED and its Affiliates a royalty-bearing, nonexclusive, worldwide license (without any right to sublicense third parties) under the Kodak Patent Rights and Kodak's Know-how to develop or have developed, make or have made, use, sell and import Monochrome - Phase 1 FED Licensed Products, Color - Phase 2 and Phase 3 FED Licensed Products, and Color - Phase 4 FED Licensed Products.

3.2 Grant by FED. Subject to the terms of this Agreement, FED hereby grants to Kodak and its Affiliates a fully paid-up (except with respect to sublicenses of FED Patent Rights [Redacted]* nonexclusive, worldwide license, including the right to sublicense third parties, under the FED Patent Rights and FED's Know-how to develop or have developed, make or have made, use, sell and import Kodak Licensed Products [Redacted]* .

---

* The redacted portions of this document have been omitted pursuant to a request for confidential treatment and such redacted portions have been filed separately with the Securities and Exchange Commission.

3.3 Sublicenses. Kodak shall have the right to issue nontransferable sublicenses to third parties, to develop or have developed, make or have made, use, sell and import Kodak Licensed Products, provided that Kodak has rights under this Agreement at the time of each such sublicense. Kodak's right to grant sublicenses hereunder is expressly conditioned upon Kodak's compliance with the following:

(a) Each such sublicense will comply with the provisions of this Agreement relating to such sublicenses. Each such sublicense of FED Patent Rights [Redacted]* will be in writing and, upon request, Kodak will identify each such sublicense to FED.

(b) Kodak will (i) collect payment of all royalties due FED pursuant to Section 4.3(b) hereof from the sale of Kodak

Licensed Products by sublicensees [Redacted]* and pay FED such royalties at the times set forth in Section 4.5; and (ii) summarize and deliver all reports due FED from such royalty-bearing sublicensees according to the schedule set forth in Section 5 hereof. Kodak will have the right to delete portions of such reports it considers Confidential Information to the extent that it does not restrict FED's ability to assess the accuracy of the reports according to Generally Accepted Accounting Principles.

(c) Kodak will use reasonable efforts to ensure that all sublicensees of FED Patent Rights [Redacted]* abide by the terms of their sublicense agreements and, upon request by FED, shall keep FED apprised of its activities to enforce such terms with particular sublicensees. Kodak will take such other actions, give such information, and render such aid, as is reasonable and may be necessary to allow FED to bring and prosecute such suits.

4.0 ROYALTIES AND PAYMENTS

4.1 Initial License Fees and Payments.

(a) This Agreement shall be effective for Monochrome - Phase 1 FED Licensed Products without payment of any initial license fee by FED to Kodak.

(b) FED shall pay Kodak an initial license fee of [Redacted]* for Color - Phase 2 and Phase 3 FED Licensed Products under this Agreement and the parties' Non-Direct View, Head Mount License. Such initial license fee shall be payable and such license for Color - Phase 2 and Phase 3 FED Licensed Products under this Agreement and the parties' Non-Direct View, Head Mount License shall become effective as follows: (i) [Redacted]* shall be payable on the date FED meets the Color - Phase 2 and Phase 3 Prototype Performance Requirements under the parties' Evaluation Agreement, and upon Kodak's receipt of such payment FED's license for Color - Phase 2 and Phase 3 FED Licensed Products under the parties' Non-Direct View, Head Mount License shall be effective; and (ii) [Redacted]* shall be payable to Kodak on November 30, 1999, and upon Kodak's receipt of such payment FED's license for Color - Phase 2 and Phase 3 FED Licensed Products under this Agreement shall be effective.

---

* The redacted portions of this document have been omitted pursuant to a request for confidential treatment and such redacted portions have been filed separately with the Securities and Exchange Commission.

(c) On the date the licenses under this Agreement and the parties' Non-Direct View, Head Mount License to FED become effective for Color - Phase 4 FED Licensed Products in accordance with the provisions of the parties' Evaluation Agreement, FED shall pay Kodak [Redacted]*, which shall represent an initial license fee due under both the Non-Direct View, Head Mount License and this Agreement.

(d) In further consideration for the licenses granted FED hereunder, FED shall pay Kodak [Redacted]* on March 31, 2001, provided however that such payment under this subparagraph (d) shall not be required in the event that prior to March 31, 2001, the Series G Preferred Stock purchased by Kodak on March 30, 1999 has been converted into common shares.

The foregoing initial license fees and payments shall be nonrefundable and non-creditable against royalties payable to Kodak under Section 4.2 of this Agreement.

4.2 Royalties to Kodak. In partial consideration for the rights granted FED hereunder, FED shall pay Kodak the following royalties on Net Sales of FED Licensed Products:

(a) on the first [Redacted]* in each year - [Redacted]* for Monochrome - Phase 1 FED Licensed Products, [Redacted]* for Color - Phase 2 and Phase 3 FED Licensed Products, and [Redacted]* for Color - Phase 4 FED Licensed Products;

(b) on amounts between [Redacted]* and [Redacted]* in such year - [Redacted]* for Monochrome - Phase 1 FED Licensed Products, [Redacted]* for Color - Phase 2 and Phase 3 FED Licensed Products, and [Redacted]* for Color - Phase 4 FED Licensed Products;

(c) on amounts above [Redacted]* in such year - [Redacted]* for Monochrome - Phase 1 FED Licensed Products, [Redacted]* for Color - Phase 2 and Phase 3 FED Licensed Products, and [Redacted]* for Color - Phase 4 FED Licensed Products; and

(d) in addition, on January 1 of each year during the term of this Agreement, FED shall pay Kodak an annual minimum royalty fully creditable against the above-referenced royalties, if any, accruing against Net Sales of FED Licensed Products in such year. For the first year, the amount of such annual minimum royalty shall be [Redacted]* , in the second and third years such amount shall be [Redacted]* per year, in years 4 and 5 such amount shall be [Redacted]* per year, and in year 6 and thereafter such amount shall be [Redacted]* per year. Annual minimum royalty payments paid under this Agreement shall represent the total annual minimum royalties due under both the Non-Direct View, Head Mount License and this Agreement.

---

* The redacted portions of this document have been omitted pursuant to a request for confidential treatment and such redacted portions have been filed separately with the Securities and Exchange Commission.

With respect to FED Licensed Products which are covered solely by Kodak's Know-how (and not by any Kodak Patent Rights), FED shall pay Kodak royalties on Net Sales of FED Licensed Products as set forth in this section for the term of this Agreement as specified in Section 8.1, except that royalties shall be [Redacted]* of the Net Sales of such products.

A "year" shall mean each calendar twelve (12) month period or portion thereof ending on December 31 during the term of this Agreement.

4.3 Royalties to FED.

(a) Kodak shall have no obligation to pay FED any royalties from Kodak's exercise of its licenses or sublicenses hereunder, except as set forth in subsection (b) below.

(b) In the event Kodak grants any sublicenses pursuant to Section 3.3, Kodak shall pay FED a royalty solely on Net Sales of each Kodak Licensed Product [Redacted]* in an amount equal to [Redacted]* multiplied by the number of licensed patents in FED Patent Rights which cover such Kodak Licensed Product, [Redacted]*, provided however that in no case shall such royalty paid by Kodak to FED exceed the amount of the royalty received by Kodak under the license to such third party of Kodak Patent Rights which cover such sublicensed product.

4.4 Royalties Accrue Upon Receipt of Payment. Under this Agreement, Licensed Products will normally be considered to be sold when payment is actually received from a third party other than an Affiliate to whom such Licensed Product has been delivered or transferred, unless such payment is unreasonably delayed or deferred for a period greater than ninety (90) days from the date such payment is first billed out or such product is actually delivered, whichever occurs first, in which case royalties shall accrue upon the lapse of such ninety (90) day period. Upon

termination of this Agreement, however, all shipments made on or prior to the day of such expiration or termination which have not been billed out prior thereto will be considered as sold (and therefore subject to royalty).

4.5 Payments. Royalties accruing to each party will be paid on a quarterly basis within sixty (60) days after the last days of March, June, September and December of each calendar year. Each party will make all royalty payments on behalf of itself and its Affiliates.

4.6 Foreign Currencies. All monies due hereunder will be payable in United States dollars. When Licensed Products are sold for monies other than United States dollars, the earned royalties will first be determined in the foreign currency of the country in which Licensed Products were sold and then converted into equivalent United States dollars. The exchange rate will be the average of the buying and selling rate established by the Bank of America in New York, New York on the last business day of the reporting period.

---

* The redacted portions of this document have been omitted pursuant to a request for confidential treatment and such redacted portions have been filed separately with the Securities and Exchange Commission.

4.7 Currency Restrictions. If at any time legal restrictions prevent the prompt remittance by either party of part or all royalties due to the other party with respect to any country outside the United States where Licensed Products are sold, such party will have the right to make such payments by depositing the amount thereof in local currency to the other party's account in a bank or other depository in such country.

5.0 ROYALTY REPORTS

5.1 Reports of First Sale. Each party will report to the other party in its immediately subsequent royalty report the date of the first commercial sale of each FED or Kodak Licensed Product, as applicable, on which royalties are payable under this Agreement in the United States and the first date of commercial sale of such Licensed Product on which royalties are payable outside the United States.

5.2 Dates; Contents. After the first commercial sale of the first Licensed Product anywhere in the world by a party or its sublicensees on which royalties are payable, such party will make quarterly written royalty reports to the other party within sixty (60) days after the last days of March, June, September, and December of each calendar year. Each royalty report will cover the sales by product by such party, and if Kodak, sales by its sublicensees, on which royalties are payable for the most recently completed calendar quarter. Each royalty report will also state the amount of sales by territory on which royalties are payable and the royalties due, as well as the calculations used to arrive at such royalties.

5.3 Submission of Payments and Reports by FED. All license payments and royalty reports under this Agreement by FED should be made to Kodak Corporate Royalty Accounting who will handle receipt and deposit of all royalties and/or license fees. Unless otherwise notified in writing, FED license payments and royalty reports should be submitted to the following address:

Eastman Kodak Company
Royalty Accounting
343 State Street
Rochester, NY 14650-0907
Attention: Mr. Paul Melos

5.4 Submission of Payments and Reports by Kodak. Unless otherwise notified in writing, all license payments and royalty reports under this Agreement by Kodak should be submitted to the following

address:

FED CORPORATION
1580 Route 52
Hopewell Junction, New York 12533

6.0 BOOKS AND RECORDS

6.1 Records. FED and Kodak's sublicensees will each keep records accurately showing all Licensed Products on which royalties are payable under this Agreement. Such records will be preserved for at least three (3) years from the date of the royalty payment to which they pertain. Kodak will obligate its sublicensees to open their records for inspection during regular business hours by an independent certified public accounting firm selected by FED and reasonably acceptable to Kodak and Kodak's sublicensees, and FED's records will be open to inspection during regular business hours by an independent certified public accounting firm selected by Kodak and reasonably acceptable to FED. Each party shall make inspections hereunder no more than once per year.

6.2 Expenses. The fees and expenses incurred by the party having an independent certified public accounting firm perform an examination of the royalty reports as set forth in Section 6.1 above will be borne by such party. However, if an error in the royalty accounting of more than ten percent (10%) of the total royalties due for any calendar quarter is discovered, then such fees and expenses will be paid by the other party.

6.3 Late Payments. Each party shall be liable for interest at a rate of the Prime Rate plus three percent (3%) compounded monthly on any overdue royalty or other payment due under this Agreement, commencing on the date such royalty or other payment becomes due. The "Prime Rate" shall be the Prime Rate as reported by The Wall Street Journal for the date on which such late royalty or payment is made.

7.0 DISCLOSURE OF KNOW-HOW

7.1 Transfer of Kodak's Know-how. Kodak agrees to provide FED upon request during the term of this Agreement through March 31, 2000, technical assistance and consultation at FED facilities and technical assistance and consultation at Kodak facilities in order to transfer Kodak's Know-how to FED for use in developing and making FED Licensed Products solely in the Field of Use. FED shall have the right to obtain such Person-days of technical assistance and consultation from Kodak pursuant to the terms and conditions set forth in the parties' Non-Direct View, Head Mount License.

7.2 Transfer of FED's Know-how. FED agrees to provide Kodak upon request during the term of this Agreement through March 31, 2000, technical assistance and consultation at Kodak facilities and technical assistance and consultation at FED facilities in order to transfer FED's Know-how to Kodak for use in developing and making Kodak Licensed Products pursuant to the terms and conditions set forth in the parties' Non-Direct View, Head Mount License.

7.3 Compliance with Know-how Transfer. Kodak's compliance with aforementioned Section 7.1 and Section 12.0 and FED's compliance with the aforementioned Section 4.0, Section 7.2 and Section 12.0 shall constitute the sole and exclusive requirements on each party under this Agreement with respect to the license and disclosure of Kodak's Know-how to FED and FED's Know-how to Kodak, respectively.

8.0 TERM AND TERMINATION

8.1 Term. Unless otherwise terminated by operation of law or in accordance with the terms of this Agreement, the term of this Agreement will commence on the Effective Date and continue for a period ending on a country-by-country basis upon the expiration of

the last-to-expire issued patent, or the abandonment of the last pending patent application, in such countries licensed under this Agreement. For purposes of convenience in computing royalties on FED Licensed Products, considering the number and different filing dates of the applicable patents within, and the number of different classes of FED Licensed Products under, Kodak Patent Rights, the royalty rates for each different class of FED Licensed Products shall not increase or decrease during the term of this Agreement as the number of such applicable patents increase (as new patents issue) or decrease (as older patents expire).

8.2 Termination For Breach. If either party should fail to perform any material term or covenant of this Agreement, then the other party may, within thirty (30) days of such failure or omission, give written notice of such default. If the defaulting party should fail to remedy such default within sixty (60) days of the effective date of such notice, the non-defaulting party will have the right to terminate the licenses it has granted under this Agreement on written notice. Sublicenses granted in the case of Kodak based on such terminated license shall be handled as provided in Section 8.6 below.

8.3 Termination for Bankruptcy. If, at any time during the life of this Agreement, either party shall become a voluntary debtor party to any bankruptcy, insolvency or reorganization proceeding, or shall be declared bankrupt or reorganized by a court of competent jurisdiction, or enter into any composition with its creditors, or shall begin any proceeding for the liquidation or closing of its business or for the termination of its corporation charter, the other party shall have the right forthwith to terminate the patent license granted by it herein, by sending written notice of such termination to said debtor party. Such termination of the licenses granted by said other party shall not affect the licenses granted to said other party by said debtor party.

8.4 Obligations Upon Termination. Expiration or termination of this Agreement will not relieve either party of any obligation or liability accrued hereunder prior to such termination, or rescind any payments due or paid to the other party hereunder, except payments made by mistake, prior to the time such termination becomes effective. The following provisions shall survive the expiration or termination of this Agreement for any reason: Sections 4.5-4.7, Section 6, Sections 8.4-8.6, Section 9, Sections 11-19.

8.5 Sale of Stock On Hand. Upon termination of this Agreement for any reason, FED will provide Kodak within forty-five (45) days following the effective date of termination with a written inventory of all FED Licensed Products, as applicable, in process of manufacture or in stock, and will dispose of such FED Licensed Products within one hundred and twenty (120) days of the effective date of termination, provided, however, that the sales of all such FED Licensed Products will be subject to the terms of this Agreement.

8.6 Survival of Sublicenses. Upon termination of the licenses granted by FED under this Agreement due to Kodak's failure to remedy a default of any material term or covenant of this Agreement as provided in Section 8.2 above or any other reason, sublicenses granted by Kodak under this Agreement with respect to FED Patent Rights and FED's Know-how shall continue to remain in effect and Kodak shall continue to be obligated to make any required royalties due on such sublicenses with respect to FED Patent Rights in the Field of Use to FED.

9.0 USE OF NAMES AND TRADEMARKS

Neither party has any right to use any name, trade name, trademark, or other designation of the other party (including any contraction, abbreviation, or simulation) in advertising, publicity, or other promotional activities without the other party's prior written consent, which may be granted or withheld in its sole discretion.

10.0 DISCLAIMER

10.1 Disclaimer. THESE LICENSES AND THE ASSOCIATED PATENT RIGHTS AND TECHNOLOGY ARE PROVIDED WITHOUT WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR ANY OTHER WARRANTY, EXPRESS OR IMPLIED. NEITHER PARTY MAKES ANY REPRESENTATION OR WARRANTY THAT LICENSED PRODUCTS OR PRACTICE OF PATENTED METHODS WILL NOT INFRINGE ANY PATENT OR OTHER PROPRIETARY RIGHT. IN NO EVENT WILL EITHER PARTY BE LIABLE FOR ANY INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES RESULTING FROM EXERCISE OF THESE LICENSES OR THE USE OF THE PATENT RIGHTS OR LICENSED PRODUCTS, EVEN IF IT HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

10.2 Nothing in this Agreement will be construed as:

(a) A warranty or representation by either party as to the validity or scope of any of such party's rights in its Patent Rights;

(b) A warranty or representation that anything made, used, sold or otherwise disposed of under any license granted in this Agreement is or will be free from infringement of patents of third parties;

(c) Any obligation to bring or prosecute actions or suits against third parties for patent infringement;

(d) Conferring by implication, estoppel or otherwise any license or rights under any patents to either party other than the Patent Rights licensed herein, regardless of whether such patents are dominant or subordinate to the Patent Rights.

11.0 PATENT INFRINGEMENT

11.1 Notice of Infringement. In the event that either party learns of the substantial infringement of any Patent Rights licensed under this Agreement from the other party, such party will call the other party's attention thereto in writing and will provide the other party with such evidence of such infringement as it may rightfully be entitled to provide.

11.2 Recoveries. Any legal action for infringement will be brought at the sole discretion and be at the expense of the party who owns the Patent Rights infringed on and all recoveries thereby will belong to such party; provided, however, that if a legal action is brought jointly by the parties and fully participated in by both, such action will be at the joint expense of the parties and all the recoveries will be shared jointly by them in proportion to the share of expense paid by each party.

12.0 CONFIDENTIAL INFORMATION AND INVENTIONS

12.1 General. The parties and their Affiliates, from time to time, in connection with their performance under this Agreement will disclose Confidential Information to each other. FED agrees not to use Kodak's Confidential Information outside the Field of Use and each party will use its best efforts to prevent the disclosure to third parties (other than its Affiliates or Kodak's sublicensees) of any of the other party's Confidential Information during the term of this Agreement and for a period of five (5) years thereafter, provided that the receiving party's obligations hereunder will not apply to information that the receiving party can show:

(a) is disclosed orally; provided, however, that the receiving party's obligations under this Section 12 shall apply to information disclosed orally if such information is summarized and confirmed in writing as "CONFIDENTIAL" by the disclosing party within thirty (30) days after disclosure thereof; or

(b) is already in the receiving party's possession at the time

of disclosure thereof as shown in the records or files of the receiving party at the time of disclosure; or

(c) is or later becomes part of the public domain through no fault of the receiving party; or

(d) is received from a third party having no obligations of confidentiality to the disclosing party, provided that the receiving party complies with any restrictions imposed by the third party; or

(e) is independently developed by the receiving party; or

(f) is required by law or regulation to be disclosed, provided that the receiving party promptly notifies the disclosing party so that such party may take appropriate legal action to restrict such disclosure and/or obtain a protective order to safeguard such information; or

(g) is made available by the disclosing party to a third party without similar restrictions.

12.2 Subject to the rights and obligations of the parties set forth in Section 12.3 through 12.6 below, each of FED and Kodak agree that during the term of this Agreement and for a period of 5 years thereafter, they shall protect Confidential Information of the other party as follows:

(a) limit access to any such Confidential Information received by them to their employees, directors, consultants, advisors, Affiliates, and authorized sublicensees (in the case of Kodak) who have a need-to-know in connection with the parties' use of the licenses granted under this Agreement,

(b) advise their employees, directors, consultants, advisors, Affiliates, and authorized sublicensees (in the case of Kodak) having access to the Confidential Information of the proprietary and confidential nature thereof and of the obligations set forth in this Agreement,

(c) take appropriate action with their employees, directors, consultants, advisors, Affiliates, and authorized sublicensees (in the case of Kodak) having access to the Confidential Information to fulfill their obligations under this Agreement, including requiring such persons to execute a non-disclosure agreement, having provisions substantially similar to the corresponding provisions of this Agreement,

(d) safeguard all Confidential Information to prevent any unauthorized access thereto, and

(e) not disclose any Confidential Information received by them to third parties, except as expressly set forth in this Agreement.

12.3 Inventions made in the conduct of the activities of the parties under this Agreement and any patent filings based on such inventions shall be owned as follows:

12.3.1 If invented or created solely by staff of one party or its Affiliates, ownership shall vest in that party,

12.3.2 If invented or created jointly by staff of both parties or their Affiliates, ownership shall vest jointly in both parties.

12.4 Patent procurement activity in regard to solely owned inventions shall be pursued at the discretion and expense of the owner set forth in Section 12.3. The parties shall mutually decide on a case-by-case basis the party who shall undertake patent filing activity with respect to each jointly owned invention. The expenses for such patent procurement activities shall be the

responsibility of the party herein designated to pursue such activity.

12.5 FED will notify Kodak of any of its inventions made under this Agreement prior to the filing of any patent application based on the such inventions, provide Kodak with a copy of any such application and any issued patent granted thereon, and on request update Kodak as to the status of any such patent application. Each party further agrees to sign documents to vest or maintain title to patents and patent applications in the owner designated in Section 12.3 and to provide reasonable assistance to the other with respect to preparation and prosecution of such patents and patent applications.

12.6 The foregoing will not affect or limit the right of either party or its Affiliates to fully exercise the licenses granted under this Agreement, and Kodak and its Affiliates will be fully entitled to use and disclose [Redacted]* to Kodak's sublicensees hereunder provided that each such sublicensee enters into a nondisclosure agreement with Kodak to maintain the confidentiality of FED's Confidential Information on terms substantially similar to the corresponding provisions of this Agreement.

12.7 Any information disclosed hereunder is provided "As Is" and without any warranty, except the disclosing party warrants that it has the right to make such disclosures.

13.0 WAIVER

13.1 No provision of this Agreement is deemed waived and no breach excused unless such waiver or excused breach is made in writing and signed by the party granting such waiver or excusing such breach.

13.2 Failure on the part of either party to exercise or enforce any right under this Agreement will not be a waiver of any other right, or operate to bar the enforcement or exercise of the right at any time thereafter.

13.3 No waiver by either party of any breach or default of any of the terms or conditions in this Agreement is a waiver of any similar or subsequent breach or default.

14.0 ASSIGNABILITY

This Agreement is binding upon and will inure to the benefit of each party's permitted successors and assigns. This Agreement and the licenses granted herein, however, are not assignable or otherwise transferable by FED, including without limitation, any such transfers associated with its sale, merger, change of control, consolidation, or any other material change in its corporate organization, without Kodak's prior written consent, which consent will not be unreasonably withheld.

---

* The redacted portions of this document have been omitted pursuant to a request for confidential treatment and such redacted portions have been filed separately with the Securities and Exchange Commission.

15.0 NOTICES

All notices and other communications required or permitted under this Agreement must be in writing. They may be delivered personally or sent by telex, courier, facsimile, or registered mail, postage prepaid. They shall be delivered or sent to the receiving party's representative specified in this Agreement and they shall be effective on the date of receipt at the specified address. All notices, other than license payments and royalty reports, unless otherwise designated by written notice given to the other party, shall be delivered to the following addresses:

In the case of Kodak: Eastman Kodak Company

Corporate Commercial Affairs
343 State Street
Rochester, New York 14650-0211
Attention: R.P. Hilst
Telephone: (716)724-3391
Facsimile: (716)724-9563

In the case of FED:

FED Corporation
1580 Route 52
Hopewell Junction, New York 12533
Attention: Webster E. Howard
Telephone: 914-892-1970
Facsimile: 914-892-1935

16.0 GOVERNING LAWS

This Agreement shall be governed and construed in accordance with the laws of the State of New York, without reference to its conflict of laws provisions.

17.0 EXPORT CONTROL LAWS

A party receiving Confidential Information under this Agreement shall adhere to the U.S. Export Administration Laws and Regulations and shall not export or re-export any technical data or products received from the disclosing party or the direct products of such technical data to any proscribed country listed in the U.S. Export Administration Regulations unless properly authorized by the U.S. Government.

18.0 MISCELLANEOUS

18.1 Amendments. Any amendment or modification of this Agreement must be in writing, reference this Agreement, identify sections or exhibits to be amended or modified and be signed on behalf of each party.

18.2 Complete Agreement. This Agreement, together with the Exhibit attached hereto and incorporated herein by reference, embodies the entire understanding of the parties and supersedes all previous communications, representations, or understandings, either oral or written, between the parties on the subject matter of this Agreement, except for the related obligations of the parties under the Non-Direct View, Head Mount License and the surviving obligations of the parties set forth in Sections 6.0 and 7.0 of the Evaluation Agreement.

18.3 Severability. If any provision of this Agreement is held to be invalid, illegal or enforceable in any respect, that invalidity, illegality, or unenforceability will not affect any other provisions of the Agreement. This Agreement will be construed as if such invalid, illegal or unenforceable provision were never in this Agreement.

18.4 Agents. Neither party is an agent of the other and has no power to contract for or obligate the other party for any purpose.

18.5 Publicity. Neither party shall release any information, advertising or publicity relating to this Agreement, without the prior written approval of the other. Either party, however, may disclose the existence (but not the contents) of this Agreement, if identified as confidential to government agencies, stockholders, potential investors, suppliers, or customers. Kodak may disclose this Agreement under a written confidentiality agreement to licensees and sublicensees of Kodak Patent Rights and Kodak Know-how [Redacted]*.

18.6 Warranty and Representations. Kodak and FED each represent and warrant that:

18.6.1 it is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was incorporated;

18.6.2 it is under no prior obligation or duty to a third party, nor shall it undertake any such obligation or duty during the term of this Agreement which conflicts with the performance of its obligations and duties hereunder;

18.6.3 it has the full right and power to convey the licenses and rights granted herein and disclose the results and other information related to this Agreement; and

18.6.4 it has and shall maintain the authorization of its Affiliates to grant the licenses and other rights and undertake the obligations set forth in this Agreement to the extent such licenses, rights, and obligations must be granted by or require the acts or the consent of its Affiliates.

AGREED TO:

EASTMAN KODAK COMPANY	FED CORPORATION
By /s/ J. C. Stoffel	By /s/ Gary W. Jones
(Signature)	(Signature)
Name J. C. Stoffel	Name Gary W. Jones
Title Director R&D and Vice President	Title President and CEO

---

* The redacted portions of this document have been omitted pursuant to a request for confidential treatment and such redacted portions have been filed separately with the Securities and Exchange Commission.

EXHIBIT A

Patent Rights

The Kodak Patent Rights referenced in Section 2.4 of this Agreement shall include the following patent applications and/or patents:

Kodak Patent Rights for Phase 1 - Monochrome - Single Color Emitters

U.S. Patent 4,356,429	U.S. Patent 5,059,861	U.S. Patent 5,405,709
U.S. Patent 4,539,507	U.S. Patent 5,059,862	U.S. Patent 5,484,922
U.S. Patent 4,720,432	U.S. Patent 5,061,569	U.S. Patent 5,552,678
U.S. Patent 4,769,292	U.S. Patent 5,073,446	U.S. Patent 5,554,450
U.S. Patent 4,885,211	U.S. Patent 5,141,671	U.S. Patent 5,593,788
U.S. Patent 4,950,950	U.S. Patent 5,150,006	
U.S. Patent 5,047,687	U.S. Patent 5,151,629	

Kodak Patent Rights for Phase 2 - Color - White Emitter with Color Filter Array

U.S. Patent 4,356,429	U.S. Patent 5,059,861	U.S. Patent 5,405,709
U.S. Patent 4,539,507	U.S. Patent 5,059,862	U.S. Patent 5,484,922
U.S. Patent 4,720,432	U.S. Patent 5,061,569	U.S. Patent 5,552,678
U.S. Patent 4,769,292	U.S. Patent 5,073,446	U.S. Patent 5,554,450
U.S. Patent 4,885,211	U.S. Patent 5,141,671	U.S. Patent 5,593,788
U.S. Patent 4,950,950	U.S. Patent 5,150,006	
U.S. Patent 5,047,687	U.S. Patent 5,151,629	

Kodak Patent Rights for Phase 3 - Color - Blue/Near UV Emitter with Color Changing Medium

U.S. Patent 4,356,429	U.S. Patent 5,059,861	U.S. Patent 5,294,870
U.S. Patent 4,539,507	U.S. Patent 5,059,862	U.S. Patent 5,484,922
U.S. Patent 4,720,432	U.S. Patent 5,061,569	U.S. Patent 5,552,678
U.S. Patent 4,769,292	U.S. Patent 5,073,446	U.S. Patent 5,554,450
U.S. Patent 4,885,211	U.S. Patent 5,141,671	U.S. Patent 5,593,788
U.S. Patent 4,950,950	U.S. Patent 5,150,006	
U.S. Patent 5,047,687	U.S. Patent 5,151,629	

Kodak Patent Rights for Phase 4 - Color - Patterned Multicolor Emitters

U.S. Patent 4,356,429	U.S. Patent 5,059,861	U.S. Patent 5,294,869
U.S. Patent 4,539,507	U.S. Patent 5,059,862	U.S. Patent 5,294,870
U.S. Patent 4,720,432	U.S. Patent 5,061,569	U.S. Patent 5,484,922
U.S. Patent 4,769,292	U.S. Patent 5,073,446	U.S. Patent 5,552,678
U.S. Patent 4,885,211	U.S. Patent 5,141,671	U.S. Patent 5,554,450
U.S. Patent 4,950,950	U.S. Patent 5,150,006	U.S. Patent 5,593,788
U.S. Patent 5,047,687	U.S. Patent 5,151,629	

Document is copied.

EXHIBIT 10.7

AMENDMENT #1
to the
NONEXCLUSIVE FIELD OF USE LICENSE AGREEMENT

dated March 29, 1999

by and between

EASTMAN KODAK COMPANY, on behalf of itself and its subsidiaries, ("Kodak")

and

FED Corporation, which recently changed its name to eMagin ("FED-eMagin")

This Amendment #1 shall amend and modify, to the extent of any inconsistency, the provisions of the above-referenced Agreement, as follows:

1. In Section 2.11(d) following the word "modules", the following phrase is inserted: ", including optics designed or made by FED-eMagin or its Affiliates and integrated with the structure of products in the Field of Use (but not including optics technology covered by the claims of U.S. Patent 5,539,422 issued July 23, 1996 and its corresponding patents filed in foreign countries)"

2. In Sections 2.4, 2.6.2, 2.8, 7.1 and 7.2 delete "March 31, 2000" and insert "March 31, 2002".

All other terms and conditions of the above referenced Agreement shall remain in full force and effect.

APPROVED AND AGREED TO THIS 16th DAY OF MARCH, 2000.

EASTMAN KODAK COMPANY	eMagin Corporation (formerly FED CORPORATION)
By: /s/ J.C. Stoffel	By: /s/ Gary W. Jones
Signature	Signature
J.C. Stoffel	Gary W. Jones
Printed Name	Printed Name
Title: Vice President	Title: President and CEO

Exhibit 10.8 IBM

International Business Machines Corporation
Hudson Valley Research Park

1580 Route 52
Hopewell Junction, NY 12533-6531

Mr. Gary Jones
President and Chief Executive Officer
FED Corporation
Hudson Valley Research Park
1580 Route 52
Hopewell Junction, NY 12533-6531

July 9, 1999

Subject: First Amendment to the Lease executed on May 28, 1999, between International Business Machines Corporation (IBM) and FED Corporation (FED)

Dear Mr. Jones:

This letter, upon your signed acceptance, amends the above referenced Lease between IBM and FED for space located at the Hudson Valley Research Park in Hopewell Junction, New York. The Lease shall be amended as follows:

In "TABLE OF CONTENTS", page 2, delete line "Exhibit A4 -FED Occupied Space, Bldg. 320B First Floor" in its entirety.

In PARAGRAPH 1, PREMISES: replace "...EXHIBITS A1 through A4..." with "...EXHIBITS A1 through A3..." and replace "...buildings numbered 310, 334, 330C and 32OB..." with "...buildings numbered 310, 334 and 330C..."

In Paragraph 2, USE OF PREMISES, (a) Permitted Uses, replace "...Storage Space in EXHIBIT A1, EXHIBIT A3, and EXHIBIT A4..." with "...Storage Space in EXHIBIT A1, and EXHIBIT A3..."

On Page 36, replace "Riders, A, B ,C, and D; EXHIBITS A1, A2, A3, A4, B, C, and D;..." with "Riders, A, B ,C, and D; EXHIBITS A1, A2, A3, B, C, and D;..."

Replace "EXHIBIT A1", dated 01-15-99 in its entirety with "EXHIBIT A1" dated 07-02-99.

On page 57, delete "EXHIBIT A4, FED Occupied Space Bldg. 320B First Floor" in its entirety and replace with "This page intentionally left Blank".

Delete "EXHIBIT A4" dated 01-15-99 in its entirety.

Except as amended herein, all the terms and conditions of the Lease shall remain in full force and be effective. Please indicate your acceptance by signing two (2) copies of this letter and returning them to IBM for counter signature. Thank you.

Accepted and agreed to:

INTERNATIONAL BUSINESS MACHINES CORPORATION	FED CORPORATION
---	---
Raymond J. Wagner	Gary W. Jones
Senior Program Manager	President and Chief Executive Officer
North Region Real Estate	
Date: ---	Date: ---

Document is copied.

EXHIBIT 10.9

LEASE

INTERNATIONAL BUSINESS MACHINES CORPORATION, Landlord

AND

FED CORPORATION, Tenant

TABLE OF CONTENTS

LEASE

This Lease, made the 28th day of May 1999 is between INTERNATIONAL BUSINESS

MACHINES CORPORATION, a New York corporation, having its principal office at Armonk, New York (hereinafter called the "Landlord") and FED CORPORATION, a Delaware corporation, having its principal office at 1580 Route 52, Hopewell Junction, New York 12533 (hereinafter called the "Tenant").

This Lease replaces and supersedes the prior lease between Landlord and Tenant, dated December 20, 1993 and all amendments thereto which, subject to the following sentence, are hereby deemed to be no longer in effect . Notwithstanding the foregoing, all provisions of the prior lease between Landlord and Tenant, originally dated December 20, 1993, as amended, expressly stated in the prior lease to survive expiration or termination of the prior lease, shall remain in full force and effect.

PARAGRAPH 1. PREMISES.

The Landlord hereby leases to the Tenant, and the Tenant hereby hires and takes from the Landlord, from the Commencement Date (as that term is defined in Paragraph 4(a)), and for the duration of the Term (as that term is defined in Paragraph 4(a)), those premises outlined and described in EXHIBITS A1 through A4 hereto (hereinafter called the "Premises"). The Premises shall be located in portions of buildings numbered 310, 334, 330C and 320B at 1580 Route 52, Hopewell Junction, New York 12533 (hereinafter collectively and individually called the "Building"). The land and all improvements (including the Building of which the Premises form a part) located at Hudson Valley Research Park, 1580 Route 52, Hopewell Junction, New York 12533 are hereinafter called the "Site."

PARAGRAPH 2. USE OF PREMISES.

(a) Permitted Uses.

Subject to subparagraph (b) below, the Tenant may use and occupy (1) that part of the Premises described as Office Space in EXHIBIT A1, EXHIBIT A2, and EXHIBIT A3 (hereinafter referred to as "office space") solely for office purposes, such as administrative and executive activities and break area, and for no other purpose; (2) that part of the Premises described as Storage Space in EXHIBIT A1, EXHIBIT A3, and EXHIBIT A4 for storage of process and development tools and equipment and for no other purpose; (3) that part of the Premises described as Clean Space and Dry Lab Space in EXHIBIT A3 (hereinafter referred to as "manufacturing space") for semiconductor-like production of flat panel video displays, and for no other purpose. In addition to the semiconductor-like process steps, this production involves but is not limited to display assembly and test and the following processes: glass frit sealing, glass milling, cutting and polishing, ceramic substrate polishing, phosphor screen coating, and organic matter coating; and (4) that part of the Premises described as Wet Lab Space in EXHIBIT A1 for use as a research and development Laboratory supporting the Tenant's organic thin film processes, and for no other purpose. Except as provided in Paragraph 29, the Tenant shall, at its sole cost, obtain all governmental licenses and permits required by the Laws for the Tenant's permitted uses.

(b) Restrictions on Use.

(1) The Tenant shall not use the Premises or permit the Premises to be used in any manner which (i) violates any current or future Laws (defined in PARAGRAPH 10), including any certificate of occupancy, environmental permit issued to the Tenant or issued to the Landlord and disclosed to the Tenant, Consent Orders attached hereto, or covenants, conditions or restrictions filed on the public record which affect the Site; (ii) causes or is reasonably likely to cause damage to any part of the Site; (iii) violates a requirement or condition of any insurance policy covering any part of the Site of which the Tenant is made aware, or increases the cost of such policy; (iv) constitutes or is reasonably likely to constitute a nuisance, annoyance or inconvenience to other tenants or occupants on the Site or interferes with the use and occupancy of any part of the Site by other tenants or occupants; (v) impairs or is reasonably likely to impair the maintenance, operation or repair of any part of the equipment, facilities or systems located on the Site; (iv) interferes with, or is reasonably likely to interfere with, the transmission or reception of microwave, television, radio, telephone or other communication signals by antennae or other facilities located on, in and about the Site; or (vii)

violates the Rules and Regulations described in Rider A (the "IBM Rules") or such other rules, regulations and procedures promulgated by the Landlord

pursuant to PARAGRAPH 17.

(2) The Tenant shall not use or permit the use of the Premises for governmental or quasi-governmental functions (such as a private corporation which is funded primarily by a government agency); any type of political organization or function; any manner of political activity (including activity which generates political or social debate or issues); retail banking; food services (except vending machine operations), or for a medical or dental practice.

(3) Chemical use and storage in Wet Lab Space shall be restricted to the chemicals and the not-to-exceed quantities specified in EXHIBIT D.

PARAGRAPH 3. USE OF COMMON AREAS.

(a) Except as provided elsewhere in this Lease and subject to compliance with the IBM Rules, the Landlord hereby grants to the Tenant a nonexclusive license to use, and to permit its directors, contractors, agents and employees (hereinafter collectively called "Tenant's Agents") to use in the course of conducting business at the Premises the following (herein called the "Common Areas"):

(1) any and all elevators, common stairways, lobbies, common hallways, rest rooms, the cafeteria and other portions of the Building which, by their nature, are manifestly designed and intended for common use by the occupants of the Building, and for pedestrian ingress to and egress from the Premises and for any other such manifest purposes, and

(2) any and all parts of the Site which, by their nature, are manifestly designed and intended for common use by the occupants of the Building for pedestrian and vehicular ingress to and egress from the Premises.

(b) Notwithstanding the provisions of Paragraph 3(a), neither the Tenant nor the Tenant's Agents shall be entitled to the use of or access to any part of buildings 303, 304, 309, 312, 315, 316, 323, 325, 327, 328, 329, 330F, 331, 335, 338, 343, 385, 386, 630, 640, 650, 650A, and 690 without the prior written permission of the Landlord.

(c) In the Landlord's sole discretion, the Landlord may change, improve, rearrange and otherwise modify the Common Areas both within and without the Building and on all parts of the Site and use the Common Areas for other purposes, and nothing herein contained shall be deemed to grant to the Tenant any right of approval thereof; provided, that no such changes will interfere unreasonably with the Tenant's use of or ingress to or egress from the Premises.

(d) The license to use the Common Areas shall be exercised in common with the exercise thereof by the Landlord and any others occupying the Building and other buildings on the Site, and any other Person (defined in PARAGRAPH 33(m)) who may now or hereafter have any right to use any or all of the areas which are the subject of such license, and their respective officers, directors, contractors, employees and invitees.

PARAGRAPH 4. TERM, EXTENSION, AND BUILD-OUT.

(a) The term of this Lease (herein called the "Term") shall be for a period of five (5) years, to commence on June 1, 1999 (the "Commencement Date"), unless sooner terminated as hereinafter provided.

(b) Commencement Date. As of the Commencement Date, the Landlord and Tenant agree that the Tenant is in possession of the premises, except for the B/310 Organic Thin Films Laboratory space. The Landlord shall deliver possession of the new B/310 Organic Thin Films Laboratory portion of the Premises to the Tenant on or before August 1, 1999 in the Substantially Completed condition hereinafter described in subparagraph (f).

(c) Extension Option.

(1) The Tenant is hereby granted the option to extend the Term for all of the Premises except for any and all portions of the Premises in IBM Building 310 for one period of one year subject to and upon the provisions set forth in this subparagraph and subject to a Rent to be determined by the Landlord in its sole discretion..

(2) This extension shall commence at the expiration of the Term.

(3) The Tenant shall exercise this option by notice to the Landlord not later than six (6) months prior to the expiration of the Term.

(4) This extension shall be upon all of the provisions of this Lease. The Premises shall be accepted by the Tenant "as is" and in its existing condition at the time the extension commences, and the Landlord shall not be obligated to make any leasehold improvements or contribute funds therefore.

(5) The Tenant shall not assign its rights under this subparagraph, except in connection with an assignment of this Lease permitted by paragraph 7 of this Lease.

(6) If the Tenant fails duly and timely to exercise its option to extend the Term, the option shall thereupon automatically terminate and expire.

(7) If at the time the Tenant exercises its option to extend the Term or at anytime thereafter until commencement of the extension period, the Tenant shall be in default as set forth in paragraphs 14 and 19 of this Lease in the performance of its obligations under this Lease, the Tenant's exercise of the extension option hereunder shall become void and unenforceable.

(d) Build-out. The Landlord shall build the new B/310 Organic Thin Films Laboratory portion of the Premises described in EXHIBIT A1 to the Tenant's requirements provided that the Landlord, in its sole discretion, determines that the Tenant's requirements do not decrease the value of the Premises or determines that such build-out is not in the best interest of the Landlord. The total cost of the build-out shall be paid by the Tenant as part of the Base Rent amortized over the term of this lease as per Schedule B. Notwithstanding anything in this Lease to the contrary, the full amount of the unpaid balance of the build-out cost shall become immediately due and payable in full upon any early termination or expiration of this Lease. A schedule of such amounts is provided in Schedule E. The forgoing is not intended to limit other rights and remedies of IBM.

(e) Delay. If the Landlord is unable to deliver possession of the new B/310 Organic Thin Films Laboratory portion of the Premises described by Exhibit A1 Substantially Completed, on or before August 1, 1999, for any reason or cause, this Lease shall not end and all provisions of this Lease shall continue in effect except that rent shall abate for the period that possession by the Tenant is delayed, until the new B/310 Organic Thin Films Laboratory portion of the Premises are Substantially Completed, provided that abatement shall occur only if the Landlord's inability to deliver possession did not result from interference by the Tenant.

(f) Substantially Completed. The words "Substantially Completed" shall mean the occurrence of all of the following: (1) construction by the Landlord of the Premises such that the remaining work to be done to render the Premises fully completed adjustments or decoration which will not interfere with the Tenant's use and enjoyment of the Premises; (2) the utility services have been installed and are operational for use by the Tenant; and (3) all means of ingress and egress, parking granted to the Tenant and loading areas authorized for use by the Tenant, are available for use by the Tenant. The Tenant's taking total or partial occupancy of the Premises or the Landlord's having Substantially Completed the Premises, shall not relieve the Landlord of its obligation to proceed diligently to complete those items listed in this section. With the sole exception of the new B/310 Organic Thin Films Laboratory space, the Tenant agrees that as of the date this Lease is signed by the Tenant, the Landlord has fulfilled any and all of the Landlord's obligations with respect to the construction and maintenance of the Premises.

(g) Prior to the Commencement Date, the Tenant agrees to vacate completely the Storage space located at Column S-30 in Bldg. 330C and to deliver possession of the space to the Landlord in good condition, reasonable wear and tear excepted. Tenant at its expense, shall remove all of its personal property from the Storage space at Column s-30 in Bldg. 330C prior to the Commencement Date

PARAGRAPH 5. RENT.

(a) Base Rent and Additional Rent.

(1) The Tenant shall pay the annual rent (the "Base Rent") for the entire Premises in monthly installments in advance, on the first day of every calendar month during the Term, pursuant to Schedules A and B hereto. The Tenant shall pay additional rent, as described hereafter, when invoiced.

(2) From the Commencement Date until the end of the Term, Base Rent shall include those services described in Rider C (except as otherwise provided in Rider C) and in Paragraph 6 hereto.

(3) The Tenant shall pay as additional rent the price for utilities or services listed in Schedule C consumed on that portion of the Premises described as other than office space in EXHIBITS A1 and A3. The Schedule C utilities and services provided to the Tenant on the Commencement Date include, but are not limited to: Electricity, Domestic Water, De-Ionized Water, Chilled Water, Low Temperature Chilled Water, High Temperature Hot Water, Compressed Air, Bulk Gases and Industrial, and Fluoride Waste Drainage and Treatment and within Bldg. 310 Organic Thin Films Laboratory Solvent Drainage and Treatment. The amount of additional rent, where applicable, for utilities will be based upon meter readings and will be billed monthly. The amount of additional rent for utilities where meters are not applicable, will be billed monthly pursuant to Schedule D. The Tenant shall promptly notify the Landlord of changes (increase/decrease) in utility use where meters are not used. Once each calendar year of the Term, the prices listed in Schedule C are subject to change upon written notice from the Landlord to the Tenant.

(b) Payment of Rent. The Tenant will pay the rent, including Base Rent and additional rent as hereinafter described, without deduction, set off or demand, to Scribcor Inc., as agent for IBM Lease Administration, P.O. Box 809224, Chicago, Illinois 60680, or to such other Person (defined in PARAGRAPH 33(m)) or at such other place as the Landlord may designate in writing. The words Base Rent and additional rent are sometimes together called the "rent." Checks for the payment of rent shall be made payable to "International Business Machines Corporation." No payment by the Tenant or receipt by the Landlord of a lesser amount than the correct amount of rent due hereunder shall be deemed to be other than a payment on account; nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed to effect or evidence an accord and satisfaction. The Landlord may accept such check or payment without prejudice to the Landlord's right to recover the balance or pursue any other remedy provided in this Lease or at law or in equity.

PARAGRAPH 6. SERVICES AND UTILITIES.

(a) The Landlord shall furnish the Tenant with the following services and utilities in the Premises, subject to the provisions of PARAGRAPH 5.

(1) JANITOR SERVICE, except in storage space, in and about the Premises, each day except on Saturdays, Sundays and holidays (the "Holidays") listed in Rider B hereto. As to the Office Space, the Landlord will provide weekly trash removal and monthly general cleaning. As to the other areas of the Premises (except Storage Space), the Landlord will provide daily trash removal. The Tenant shall not provide any additional or alternative janitor service without the Landlord's written consent. If the Landlord consents, such janitor service shall be at the Tenant's sole cost and responsibility and the Tenant shall pay the Landlord a reasonable fee to coordinate these multiple janitorial services. The Tenant shall not provide any janitor service in the Premises except through a Person satisfactory to the Landlord; provided, that if the Landlord determines that such Person will cause labor disharmony on the Site, rejection of that Person shall not be subject to challenge by the Tenant.

(2) HEAT AND AIR CONDITIONING whenever heat or air conditioning shall, in the Landlord's sole judgment, be required for the comfortable occupation of the Premises. Whenever heat generating machines or equipment or lighting fixtures are used in the Premises and affect the temperature otherwise maintained by the Building air conditioning system, the Landlord may install supplementary air conditioning units in or for the benefit of the Premises, and the cost of installation, operation and maintenance thereof shall be paid by the Tenant as additional rent to the Landlord.

(3) WATER for drinking, lavatory and toilet purposes.

(4) ELECTRICITY for uses within the Office Space and Storage Space, provided that (i) the connected electrical load of the use does not exceed an average of three watts per square foot of that portion of the Premises; (ii) the electricity so furnished for such use will be at nominal 120 volt single phase and that no electrical circuit for the supply of such use will have a current capacity exceeding 15 amperes and (iii) such electricity will be used only for equipment and accessories normal to office usage.

(b) No Warranties. The Landlord does not warrant that any of the services or utilities listed above, in Rider C, in Schedule C, in Paragraph 5, or elsewhere will be free of or from interruption. ALL IMPLIED WARRANTIES, INCLUDING MERCHANTABILITY AND FITNESS OR USE FOR A PARTICULAR PURPOSE, ARE HEREBY DISCLAIMED. Any interruption of service or utilities shall never be deemed an eviction or disturbance of the Tenant's use and possession of the Premises or any part thereof, or render the Landlord liable to the Tenant for damages, or relieve the Tenant from performance of the Tenant's obligations under this Lease.

(c) Conservation. Notwithstanding anything to the contrary set forth in this PARAGRAPH or elsewhere in this Lease, the Landlord shall have the right to institute policies, programs and measures as may be necessary or desirable, in the Landlord's reasonable judgment, for the conservation and/or preservation of energy or energy-related services, or as may be required to comply with any applicable Laws, whether mandatory or voluntary.

PARAGRAPH 7. ASSIGNMENT, SUBLETTING & RECAPTURE.

The Tenant shall not, whether voluntarily or by operation of the Laws, assign, encumber or otherwise transfer this Lease or any interest herein, or sublet the Premises or any part thereof, or permit the Premises to be occupied by anyone other than the Tenant or the Tenant's Agents (defined in PARAGRAPH 3(a)). An assignment shall include any transfer of any interest in this Lease or the Premises by the Tenant pursuant to a merger, division, consolidation or liquidation, or pursuant to change in ownership of the Tenant involving a transfer of voting control in the Tenant (whether by transfer of partnership interests, corporate stock or otherwise), or any pledge of any interest in this Lease as collateral for a loan. Any assignment in violation of the foregoing prohibitions shall be void.

PARAGRAPH 8. ALTERATIONS.

(a) If the Tenant requests that the Landlord make alterations in or additions to the Premises, and the Landlord agrees, such work will be performed under separate written contract to be negotiated between the Landlord and Tenant. The Tenant shall not make or permit anyone to make any alterations in or additions to the Premises (hereinafter collectively called "Improvements") or install any equipment of any kind which will require any Improvements to the Premises, or which require the use of the Building Service Systems (defined below), without the Landlord's advance written consent in each instance. The Landlord may consent to the Tenant's request to make improvements after the Tenant furnishes the Landlord with plans and specifications therefor, names and addresses of contractors who will perform the work, and indemnification of the Landlord against claims, costs, damages, liabilities and expenses, each in form and amount satisfactory to the Landlord. The Landlord agrees to provide prompt review of Tenant's alteration request, 60 days or less depending on the complexity of the project, and will call for a project review meeting if any problems surface during the course of this review that require further input or discussion from the Tenant. The Landlord will not unreasonably delay the commencement of a Landlord-approved alteration project as long as the Tenant has complied with the requirements set forth in paragraph 8(a). All Improvements shall be installed in a good and workmanlike manner and only new, high grade materials shall be used. Whether the Tenant furnishes the Landlord the foregoing or not, the Tenant hereby agrees to indemnify, defend and hold the Landlord harmless from and defend it against any and all claims, actions, damages, liabilities and expenses of every kind and description which may arise out of or be connected in anyway with the Improvements or the installation thereof. Before commencing any work in the Premises or delivering any materials into the Building, the Tenant shall furnish the Landlord with a certificate of insurance from all contractors performing labor or furnishing materials, insuring the Landlord against all claims, costs, damages, liabilities and expenses which may arise out of or be connected in anyway with the Improvements or the installation thereof. The Tenant shall promptly furnish information regarding increase in the

use of utilities, environmental services, and other services by the Tenant which the parties agree will be the basis for additional rent to be charged to the Tenant pursuant to this Lease. The Tenant shall ensure all work performed is in full compliance with the most current version of the "199X Contractor Guide", as

referenced in Rider A. The words "Building Service Systems" mean the electrical, HVAC, mechanical, plumbing (including all environmental systems), safety and health and telecommunication (voice/data/signal) systems that service the Building up to the point of localized distribution to the Premises. Such systems provide the main source of supply and distribution throughout the Building. The word "Structure" shall mean bearing walls, roof, exterior walls, support beams, foundation, window frames, floor slabs and support columns of the Building.

(b) The Tenant shall pay the cost of all Improvements and installation thereof and also the cost of redecorating the Premises occasioned by them. All Improvements shall comply with all insurance requirements known to the Tenant, and with all Laws applicable to the work and to the Tenant.

(c) Upon completing any Improvements, the Tenant shall promptly furnish the Landlord with contractors' affidavits and full and final waivers of lien.

(d) The privilege herein granted to the Tenant to make Improvements to the Premises is conditioned upon the Tenant's contractors, workmen, employees working in harmony and not interfering with the workmen, employees and contractors of the Landlord or of any other tenant. All hardware and non-trade fixtures and all Improvements, temporary or permanent, in or upon the Premises, whether placed there by the Landlord or the Tenant shall, unless the Landlord requests their removal in accordance with subparagraph (e) below, become the Landlord's property and shall remain upon the Premises at the end of the Term, however ended, without compensation, allowance or credit to the Tenant.

(e) The Landlord may require the Tenant to remove some or all of the Improvements (including equipment required by Improvements as aforesaid in subparagraph (a)), hardware and non-trade fixtures at the end of the Term, however ended, whether installed by or on behalf of the Tenant before or after the start of the Term. The Tenant shall remove the same within thirty (30) days after the end of the Term and the Tenant shall repair all damage to the Premises caused thereby; except that the Tenant shall not be required to remove pipes and wires concealed in the floors, walls, or ceiling, provided that the Tenant properly cuts and caps the same and seals them off in a safe, lawful, and workmanlike manner. If, after the Landlord's request, the Tenant does not remove items it is required hereunder to remove within thirty (30) days after the end of the Term, however ended, the Landlord may remove the same and repair all damages caused thereby, and the Tenant shall pay to the Landlord upon demand the cost of such removal and repair of all damage.

(f) The Tenant shall remove the Tenant's Personal Property from the Premises at the end of the Term, however ended. If not so removed within thirty (30) days after the end of the Term, however ended, the Landlord may do so and the Tenant shall pay the Landlord upon demand the cost of such removal and repair of all damage. All such items not removed by the Tenant as required above shall become the Landlord's property without compensation, allowance or credit by the Landlord to the Tenant.

(g) Subparagraph (e), this subparagraph (g), and the indemnification provisions contained in this Paragraph 8 shall survive the end of the Term, however ended.

PARAGRAPH 9. SIGNS.

At its expense, the Tenant may place its signs within the Premises without the Landlord's consent, provided the signs (a) comply with the Law; (b) cannot be seen from outside of the Premises; and (c) do not affect the Building Systems or Structure, health and safety of occupants in the Building or the environment. With the Landlord's consent as to size, color, manner and style, the Tenant may, at its expense, place signs on the entrance doors to the Premises which comply with the Law. At the Tenant's expense, the Landlord shall place directional signs in the hallways leading to the Premises. Except for the foregoing, the Tenant shall not permit or suffer any signs, logos, symbols, advertisements or notices to be displayed, inscribed upon or affixed on any part of the outside or inside of the Premises, or in any other part of the Building, or on the Site.

PARAGRAPH 10. CARE OF PREMISES.

(a) At the expiration or earlier termination of this Lease, for whatever reason, the Tenant shall return the Premises to the Landlord in the condition required by the provisions of this Lease. During the Term, the Tenant will take good care of the Premises and the Building fixtures and appurtenances located within the Premises, and all Improvements (defined in PARAGRAPH 8(a)) to the Premises; will maintain the Premises and make all repairs thereto, including

repair of all damage resulting from the negligence or willful misconduct of the Tenant or Tenant's Agents (defined in PARAGRAPH 3(a)); will suffer no waste or injury; will execute and comply with all federal, state and local laws, rules, orders, statutes, directives, ordinances and regulations (collectively herein called the "Laws"), at any time issued or enforced by any lawful authority, as well as the IBM Rules, which in each case are applicable to the Tenant's use, manner of use or occupancy of the Premises; and will repair, at or before the end of the term all injury done by the installation or removal of Tenant's Personal Property and the Improvements.

(b) At any time, whether voluntarily or pursuant to governmental requirements, the Landlord may, and, where required by this Lease, shall, at its cost, make repairs and improvements in or to the Building and the Site, or any part thereof; provided, that (i) the Landlord shall give the Tenant reasonable notice of any intention to enter the Premises (unless doing so is impractical or unreasonable because of an emergency), and (ii) any such repair and improvement does not interfere unreasonably with the Tenant's use of or ingress to or egress from the Premises. Upon prior notice to the Tenant, the Landlord may close entrances, doors, corridors, elevators or other facilities, provided that any such action shall not materially interfere with the Tenant's operations within the Premises or the Tenant's ingress to or egress from the Premises. Provided the Landlord has given prior notice (unless impracticable or unreasonable because of an emergency), the Landlord shall not be liable to the Tenant for any expense, injury, loss or damage resulting from work done in or upon, or the use of, any adjacent or nearby building, land, street or alley, except to the extent caused by the gross negligence or willful misconduct of the Landlord or the Landlord's directors, employees, agents or contractors (hereinafter collectively called "Landlord's Agents"), and in no event shall rent or other monetary obligations hereunder of the Tenant be suspended, reduced, abated or otherwise affected.

PARAGRAPH 11. NOTICE.

Any notice, request, communication or demand under this Lease shall be in writing and shall be considered properly delivered when addressed as hereinafter provided, given or served personally or by overnight private express service carrier, or given by registered or certified mail (return receipt requested) and deposited in the United States general or branch post office, or by IBM Internal Certified Mail. Any notice, request, communication or demand by the Landlord to the Tenant shall be addressed to the Tenant at the Premises until otherwise directed in writing by the Tenant. Any notice, request, communication or demand by the Tenant to the Landlord shall be addressed to Mr. Roy G. Dieterle, IBM Corporation, Hudson Valley Research Park, Building 300-44X, 1580 Route 52, Hopewell Junction, New York 12533, with copies addressed simultaneously to the Landlord, Office of Area Counsel, IBM Corporation, 1580 Route 52, Hopewell Junction, New York 12533-6531, until otherwise directed in writing by the Landlord. Rejection or other refusal to accept a notice, request, communication or demand or the inability to deliver the same because of a changed address of which no notice was given shall be deemed to be receipt of the notice, request, communication or demand sent.

PARAGRAPH 12. LANDLORD'S INTEREST

The Landlord's interest in the property subject to this Lease is and always shall be paramount to the Tenant's interest in this Lease, and nothing herein contained shall empower the Tenant to do any act which shall encumber the Landlord's interest in the property subject to this Lease,

PARAGRAPH 13. CERTAIN RIGHTS RESERVED TO LANDLORD.

(a) The Landlord reserves the following rights to be exercised in the Landlord's sole discretion:

(1) To change the name of street address of the Site or Building without liability of the Landlord to the Tenant. The Landlord shall provide

the Tenant with reasonable advance notice of such change.

(2) To install and maintain a sign or signs on the exterior of the Building or other areas of the Site.

(3) To grant to anyone the exclusive right to conduct any particular business or undertaking in the Building or on any part of the Site.

(4) To take any and all measures, including audits, inspections, charges, alterations, repairs and improvements of and to the Premises or

elsewhere in the Building or on the Site, as may be necessary or desirable for the safety, protection or preservation of the Premises and other parts of the Building or the Site or the Landlord's interests therein, or as may be necessary or desirable in the operation of the Building or the Site.

(5) To approve the weight, size and location of safes, vaults, vertical files and other heavy equipment and articles in and about the Premises and elsewhere in the Building so as not to exceed the legal live load per square foot designated by the Landlord's structural engineers, and to require all such items and furniture and similar items to be moved into or out of the Building only at such times and in such manner as the Landlord shall direct in writing. The Tenant shall not install or operate machinery or any mechanical devices of a nature not directly related to the Tenant's ordinary use of the Premises without the prior written consent of the Landlord, which it will not unreasonably withhold or delay. Movement of the Tenant's Personal Property and Improvements into or out of the Building and within the Building is entirely at the Tenant's risk and responsibility, and the Landlord reserves the right to require permits, if required by Law, before allowing the same to be moved into or out of the Building.

(6) To establish reasonable security controls for the purpose of regulating all property and packages on the Site, both personal and otherwise, to be moved into or out of the Building or on the Site, and all Persons using the Building or the Site. The Landlord, in its sole discretion, may exclude any of the Tenant's Agents or Vendors from the Site or any portion thereof if the Landlord has any reason to believe that such Tenant's Agent or Vendor poses a security risk to the Landlord, the Site, or any occupant of the Site. In exercising the foregoing right, the Landlord may, but shall not be required to furnish the Tenant or any other Person with the grounds of why the Landlord has reason to believe such Tenant's Agent or Vendor poses a security risk.

(7) To establish reasonable security controls to regulate delivery and service of supplies and the use of the loading docks, receiving areas and freight elevators.

(8) If prior to the end of the Term the Tenant vacates the Premises, to decorate, remodel, repair, alter or otherwise prepare the Premises for re-occupancy.

(9) To constantly have pass keys to the Premises, provided access shall be upon the prior reasonable notice to the Tenant, except in the event of an emergency. The Landlord shall not have access to secured areas designated by the Tenant, except in an emergency.

(b) The Landlord may enter the Premises and may exercise any or all of the foregoing rights hereby reserved without being deemed guilty of an eviction or disturbance of the Tenant's use or possession and without being liable in any manner to the Tenant; provided, that the Landlord gives the Tenant the notice required elsewhere in this Lease, or if no notice period is specified, then a reasonable notice, of any intention to enter the Premises (unless doing so is impractical or unreasonable because of an emergency as reasonably determined by the Landlord).

(c) Loading dock access may be granted to the Tenant via key lock or badge lock. The terms and conditions of this privilege are specified in Rider D to this Lease.

PARAGRAPH 14. DEFAULT UNDER OTHER LEASES.

If the term of any lease made by the Tenant for any space on the Site,

other than this Lease, shall be terminated or terminable after the making of this Lease because of any default by the Tenant under such other lease, such fact shall constitute a default under this Lease and shall empower the Landlord, at the Landlord's sole option, to terminate this Lease by notice to the Tenant.

PARAGRAPH 15. WAIVER OF CLAIMS.

(a) Unless caused by the gross negligence or willful misconduct of the Landlord or Landlord's Agents (defined in PARAGRAPH 10(b) the Tenant hereby releases the Landlord and Landlord's Agents from and waives all claims for injury (including death) to any Person and damage to any property sustained by the Tenant or Tenant's Agents (defined in PARAGRAPH 3(a), resulting from the Building or Premises or any part of either or any equipment or appurtenance

becoming out of repair, or resulting from any accident, assault or robbery on or about the Site, or resulting directly or indirectly from any act, omission or neglect of any other Person, including other tenants and their licensees and invitees. This PARAGRAPH shall apply especially, but not exclusively, to the flooding of the Premises, and to damage caused by refrigerators, sprinkling devices, air conditioning apparatus, water, snow, frost, steam, excessive heat or cold or humidity, falling plaster or ceiling components, broken glass, blocked drains, failed pumps, failed electrical systems, sewage, gas, odors or noises, or the bursting or leaking of pipes or plumbing fixtures, or the failure or interruption of any building or utility system, and shall apply whether any such damage results from the act, omission or neglect or of any Person, other than the Landlord or Landlord's Agent's willful misconduct, including other tenants and their licensees and invitees, and whether such damage be caused by or results from any thing or circumstance above mentioned or referred to, or any other thing or circumstance whether of a like nature or of a wholly different nature. If any such damage, whether to the Premises or to the Building or to the Site, or any part thereof, or whether to the Landlord or to other tenants in the Building or Site, results from any negligence or willful misconduct of the Tenant or Tenant's Agents, the Landlord may, in its sole discretion, repair such damage and the Tenant shall, upon demand by the Landlord, reimburse the Landlord forthwith for the total cost of the repairs as additional rent. Neither party shall be liable to the other for any damages caused by a negligent act or omission to the extent either has recovered insurance proceeds therefor and the insurance company which has paid one party hereto has waived in writing its rights of subrogation against the other party hereto.

(b) As a material part of the consideration to the Landlord, the Tenant hereby assumes all risk or damage to or loss, theft or misappropriation of property located in, upon or about the Site or in any motor vehicles owned by, leased by, or being used by the employees of the Tenant or Tenant's Agents or its employees and located on the Site, unless caused by the willful misconduct of the Landlord.

PARAGRAPH 16. HOLDING OVER.

(a) If the Tenant remains in possession of the Premises or any part thereof after the end of the Term, however ended, the Tenant shall pay the Landlord a rental at double the rate of the Base Rent and additional rent specified in this Lease for the entire Premises for the time the Tenant remains in possession of any part of the Premises, and in addition thereto, shall pay the Landlord for all damages, whether consequential, special, incidental or otherwise, sustained by reason of the Tenant's retention of possession. The provisions of this PARAGRAPH do not waive the Landlord's rights of reentry or any other rights hereunder or which are available at law or in equity.

(b) The word "possession" shall include continued occupancy of Persons or of items that the Tenant is required by PARAGRAPH 8 to remove but which continue to remain in the Premises beyond the end of the Term by more than five (5) days.

PARAGRAPH 17. RULES.

The Tenant shall observe faithfully and comply strictly with the IBM Rules, modifications thereto, and such other rules, regulations and procedures promulgated from time to time by the Landlord, which in the Landlord's judgment reasonably exercised, are necessary for the safety, security, care or cleanliness of the Building and Site or for the preservation of good order therein. The Landlord will not be liable to the Tenant for violation of such rules, regulations or procedures by any other tenant or occupant or their respective employees, agents, invitees, licensees, or contractors.

PARAGRAPH 18. SUBORDINATION.

(a) This Lease shall be subordinate and subject at all times to all ground or underlying leases and to any mortgage or deed of trust covering the Site, the Building, other buildings on the Site, or which at any time hereafter shall be made, and to all renewals, modifications, consolidations, or replacements thereof, and to all advances made, or hereafter to be made, upon the security of any such mortgage or deed of trust. The Tenant shall execute instruments subordinating this Lease to any such lease, mortgage or deed or trust as the Landlord shall request, failing which the Tenant shall be in default hereunder and, without limiting other remedies available to the Landlord hereunder, the Landlord may act as the Tenant's attorney-in-fact for such purposes.

(b) If the Landlord commits any act or omission which would give the Tenant the right under this Lease to damages from the Landlord or the right to terminate this Lease, the Tenant agrees that it will not sue for such damages or terminate this Lease until (i) it shall have given written notice of the claimed act or omission to the Landlord and to the holder of the indebtedness or other obligations secured by any mortgage or deed of trust affecting the Premises or of any ground or underlying lease, if the name and address of such holder have been furnished to the Tenant, and (ii) in light both of the time required to effect a remedy and of the impact of the act or omission on the Tenant's business operations at the Premises, a reasonable period of time for remedying the act or omission has elapsed following the giving of the notice. During such time, the Landlord and such holder, or either of them, and Landlord's Agents, will be entitled to enter upon the Premises and do whatever may be necessary to remedy the act or omission.

PARAGRAPH 19. DEFAULT.

(a) Default By Tenant. All rights and remedies of the Landlord herein enumerated shall be cumulative, and none shall exclude any other right or remedy available at Law or in equity.

(1) The occurrence of any one or more of the following events shall constitute a default by the Tenant and a breach of this Lease: (i) the Tenant fails to make a payment of Base Rent or additional rent or any other monetary obligation when the same shall become due and payable hereunder and such failure shall continue for more than ten (10) days after notice by the Landlord, or (ii) the Tenant fails to promptly and fully perform or observe any of the other provisions in this Lease to be performed or observed by the Tenant and the failure shall continue for more than twenty (20) days after notice by the Landlord specifying the nature of such failure, or if the failure so specified shall be of such a nature that the same cannot be reasonably cured or remedied within said twenty (20) days period, the Tenant shall not have commenced to cure or remedy the failure in good faith within such twenty (20) day period and thereafter shall have diligently proceeded to cure or remedy it, (unless the act or omission of the Tenant or occurrence involves a hazardous or emergency condition which shall be cured by the Tenant forthwith upon the Landlord's demand), or (iii) the leasehold interest or property of the Tenant is levied upon under execution or is attached by process of Law, or (iv) at any time prior to or during the Term, the Tenant makes an assignment for the benefit of creditors, or a receiver is appointed for any property of the Tenant, or any voluntary or involuntary petition or similar pleading under any section or sections of any bankruptcy Law shall be filed by or against the Tenant, or any voluntary or involuntary proceeding in any court or tribunal shall be instituted to declare the Tenant in solvent or unable to pay the Tenant's debts, and in the case of any involuntary petition or proceeding, the petition or proceeding is not dismissed within thirty (30) consecutive days from the date it is filed.

(2) If the Tenant defaults hereunder, and at any time thereafter, (i) if the Term shall not have commenced, the Landlord may cancel and terminate this Lease effective three (3) days after receipt of notice by the Tenant, or (ii) if the Term shall have commenced, the Landlord may serve upon the Tenant a notice that this Lease and the Term will terminate on a date to be specified therein, (which shall not be less than three (3) days after the date the Landlord's notice is received), and upon the date so specified by the Landlord in its notice, this Lease and the then unexpired Term shall terminate and come to an end as fully and completely as if the date

specified in the Landlord' notice was the day herein definitely fixed for the end of the Term, and the Tenant shall then quit and surrender the Premises to the Landlord, but the Tenant shall remain liable as hereinafter set forth; provided, however, that if the Tenant shall fail to make timely payment of rent and such failure shall continue for two (2) consecutive months, or if the Tenant shall default in the performance of an obligation in this Lease on its part to be performed, including the timely payment of rent, two (2) or more times in any period of six (6) months then, not withstanding that each act or omission shall have been cured within the period after the giving of notices as herein provided, any further default in the performance of any obligation under this Lease on its part be performed shall be deemed to be deliberate and the Landlord thereafter may serve the aforesaid notice of termination without affording to the Tenant a further opportunity to cure the default.

(3) Upon termination of this Lease by the Landlord as herein above provided, the Landlord may terminate all services and reenter the Premises either by force or otherwise, and by summary proceedings or otherwise, dispossess the Tenant and the legal representative of the Tenant or any

other occupant of the Premises, and remove all effects therefrom without being deemed in any manner guilty of trespass, eviction or forcible detainer, and hold the Premises as if this Lease had not been made.

(4) If the Tenant defaults under this Lease, the Landlord shall have the right to terminate this Lease and receive from the Tenant, in addition to the other remedies provided in this Lease:

(i) any unpaid rent which is due and owing to the Landlord at the time of such termination or reentry; plus

(ii) the present value of the unpaid rent which would have been earned under this Lease after termination or re- entry minus the amount of such rental loss (net of expenses) that the Tenant proves could be reasonably avoided; plus

(iii) any other amount specific and documented necessary to compensate the Landlord for all the detriment proximately caused by the Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

(iv) at the Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable Law or in equity.

As used in this PARAGRAPH, "present value" shall mean the sums due and owing the Landlord hereunder as if this Lease had not been terminated, such sums being discounted from the date these sums were otherwise due under this Lease to the date actually paid to the Landlord. The discount rate shall be two percent (2%) above the prime rate published in the Wall Street Journal on the date of termination of this Lease.

(5) Any and all property which may be removed from the Premises by the Landlord pursuant to the authority of this Lease or by Law or in equity, to which the Tenant has or may have an interest, may be handled, removed or stored by the Landlord at the Tenant's risk and cost, and the Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. The Tenant shall pay to the Landlord upon demand as additional rent any and all expenses incurred by the Landlord to remove and store such property so long as the same shall be in the Landlord's possession or under the Landlord's control. Any property of the Tenant which is not removed from the Premises or retaken from storage by the Tenant within sixty (60) days after the end of the Term, however terminated, shall be presumed to have been conveyed by the Tenant to the Landlord under this Lease as a bill of sale without further compensation, allowance or credit by the Landlord to the Tenant.

(6) The Tenant shall pay upon demand all costs and charges, including the fees of counsel, agents and others retained by the Landlord, incurred by the Landlord to enforce or carry out the Tenant's obligations hereunder or incurred by the Landlord in any litigation, negotiation or transaction in which the Tenant causes the Landlord, without the Landlord's fault, to

become involved or concerned, plus interest from the date of payment at the rate of 1.5% percent per month.

(7) The Tenant hereby expressly waives the service of notice of intention to reenter or to institute legal proceedings to that end and waives any and all rights of redemption granted by or under any present or future Laws by reason of the Tenant being evicted or dispossessed for any cause, or by reason of the Landlord obtaining possession of the Premises because of the Tenant's violation of any of the provisions of this Lease or otherwise. The words "reenter," "enter" and "reentry" as used in this Lease, are not restricted to their technical legal meaning.

(8) If the Tenant breaches or threatens breach of any of the provisions of this Lease on its part to be performed hereunder, the Landlord shall have the right of injunction and the right to invoke any remedy allowed at Law or in equity as if reentry, summary proceedings and other remedies were not herein provided for. Mention in this Lease of any particular remedy shall not preclude the Landlord from pursuing any other remedy available at Law or in equity.

(9) The delivery of keys to any agent or employee of the Landlord shall not be considered as a termination of this Lease or a surrender of the Premises.

(10) The Landlord and the Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either of them against the other on any matters not relating to personal injury but otherwise arising out of or in any way connected with this Lease, the relationship of the Landlord and the Tenant, the Tenant's use or occupancy of the Premises, or any statutory remedy. The Tenant further agrees that it shall not interpose any counterclaim in summary proceeding or in any action based on nonpayment of rent or any other payment required of the Tenant hereunder to be made to the Landlord.

(b) Default by Landlord.

(1) The occurrence of any one or more of the following events shall constitute a default by the Landlord and a breach of this Lease: (i) the Landlord fails to make a payment of any monetary obligation to the Tenant as and when the same shall become due and payable hereunder and such failure shall continue for more than ten (10) consecutive days after notice by the Tenant, or (ii) the Landlord fails to promptly and fully perform or observe any of the other provisions in this Lease to be performed or observed by the Landlord and the failure shall continue for more than twenty (20) consecutive days after notice by the Tenant specifying the nature of such failure, or if the failure so specified shall be of such a nature that the same cannot be reasonably cured or remedied within said twenty (20) day period, the Landlord shall not have commenced to cure or remedy the failure in good faith within such twenty (20) day period and thereafter shall have diligently proceeded to cure or remedy it, (unless the act or omission of the Landlord or occurrence involves a hazardous or emergency condition which shall be cured by the Landlord forthwith upon the Tenant's demand), or (iii) at any time prior to or during the Term, the Landlord makes an assignment for the benefit of creditors, or a receiver is appointed for any property of the Landlord, or any voluntary or involuntary petition or similar pleading under any section or sections of any bankruptcy Law shall be filed by or against the Landlord, or any voluntary or involuntary proceeding in any court or tribunal shall be instituted to declare the Landlord insolvent or unable to pay the Landlord's debts, and in the case of any involuntary petition or proceeding, the petition or proceeding is not dismissed within thirty (30) consecutive days from the date it is filed.

(2) If the Landlord defaults hereunder and at any time thereafter, (i) if the Term shall not have commenced, the Tenant may cancel and terminate this Lease effective three (3) days after notice to the Landlord, or (ii) if the Term shall have commenced, the Tenant may serve upon the Landlord a notice that this Lease and the Term will terminate on a date to be specified therein, (which shall not be less than three (3) or more than thirty (30) days after the date the Tenant's notice is given), and upon the date so specified by the Tenant in its notice, this Lease and the then unexpired Term shall terminate and come to an end as fully and completely as if the date specified in the Tenant's notice was the day herein definitely fixed for the end of the Term, and the Tenant shall then quit

and surrender the Premises to the Landlord, but the Tenant may pursue any remedy at Law or in equity by reason of the Landlord's default; except that in no event shall the Landlord be liable to the Tenant or any other Person for any consequential, special or indirect damages and the Tenant hereby waives and releases the Landlord from any claims therefor.

PARAGRAPH 20. MECHANICS' LIENS.

The Tenant shall not permit any mechanics' or materialmen's liens to be filed against the Site, the Building, the Landlord, the Empire State Development Corporation, or against the Tenant's interest in the Premises. The Landlord shall have the right at all reasonable times to post and keep posted on the Site, including the Building and the Premises, any notices which it deems necessary for protection from such liens. If any mechanics' or materialmen's liens are so filed by reason of acts or omissions of the Tenant or Tenant's Agents, the Tenant shall remove the lien by payment, bonding or other method of discharge within thirty (30) days after the lien is filed, failing which the Landlord, at its election, may pay and satisfy the same. In such event, the sums so paid by the Landlord, including expenses and reasonable attorneys' fees, shall be due and payable by the Tenant at once as additional rent upon written demand.

PARAGRAPH 21. EMINENT DOMAIN.

(a) If the whole or a substantial part of the Premises shall be lawfully condemned or taken in any manner, this Lease and the Term shall forthwith cease and terminate on the date of the taking of possession by the condemning authority and the Landlord shall be entitled to receive the entire award granted in the proceeding for recovery of the Landlord's fee and leasehold interests without any payment to the Tenant, the Tenant hereby assigning to the Landlord the Tenant's interest in the award, if any. The rent shall be apportioned as of the date the Tenant no longer has access to the Premises by reason of such taking. The Tenant may file a separate claim in the proceedings to recover its losses. Notification to Tenant should occur promptly after Landlord is notified of a condemnation, that will affect the Premises.

(b) If any part of the Building shall be so condemned or taken and if the Landlord determines in its sole discretion that the Building should be restored in such a way as to materially alter the Premises, or that the Building should be demolished, the Landlord may terminate this Lease and the Term in its sole discretion, without compensation to the Tenant, by notifying the Tenant of such termination within sixty (60) days following the date of the taking of possession by the condemning authority. This Lease and the Term shall expire on the date specified in the notice of termination, which shall not be less than sixty (60) days after the giving of such notice, as fully and completely as if such date were the date herein before set for the expiration of the Term, and the rent shall be apportioned as of such date. Notification to Tenant should occur promptly after Landlord is notified of a condemnation, that will affect the Premises.

PARAGRAPH 22. CASUALTY.

(a) If there is damage or destruction to the Premises during the Term by fire, the elements or other casualty, the Landlord shall forthwith repair the same, provided such repairs can be made within one hundred twenty (120) days from the date of the damage or destruction as determined by the Landlord in its sole discretion. The damage or destruction shall in no way annul or void this Lease, but the Tenant shall be entitled to a proportionate reduction of rent while such repairs are being made. Such proportionate reduction shall be based upon the extent to which the Premises, or part thereof, is untenantable.

(b) If the Landlord determines that such repairs to the Premises cannot be made within such one hundred twenty (120) day period, the Landlord may, at its option to be exercised within thirty (30) days from the date of such damage or destruction, make such repairs as soon as possible thereafter and this Lease shall continue in full force and effect and the rent shall be proportionately reduced as provided in subparagraph (a) above. If the Landlord does not elect to make such repairs which cannot be made within the one hundred twenty (120) day period, the Landlord shall notify the Tenant within such thirty (30) day period of its intentions and, if the Landlord elects in its notice not to terminate this Lease, this Lease may be terminated at the option of the Tenant by notice thereof to the Landlord within thirty (30) days after receipt of the Landlord's notice.

(c) If the Building is damaged, this Lease shall continue in full force and effect and the Landlord shall forthwith repair such damage; except that if the Building is damaged or destroyed and repair or replacement, as determined by the Landlord in its sole discretion, cannot be made within one hundred twenty (120) days from the date of such damage or destruction, the Landlord, at its option to be exercised within sixty (60) days from the date of such damage or destruction, may terminate this Lease. If and until this Lease is so terminated, the Tenant shall be entitled to a proportionate reduction of rent only if the Premises are untenantable as aforesaid and no such rent reduction shall be allowed by reason of inconvenience, annoyance or injury to the Tenant's business because of such damage or destruction to the Building, or the necessity of repairing any portion of the Building, or the making of such repairs, and the Landlord shall not be liable to the Tenant because of such inconvenience, annoyance, or injury.

PARAGRAPH 23. INTENTIONALLY LEFT BLANK

PARAGRAPH 24. INSURANCE.

(a) The Tenant shall purchase and during the Term maintain for the benefit of the Tenant, the Landlord and the Landlord's property manager (as their respective interests may appear) insurance coverage on terms and with companies reasonably satisfactory to the Landlord. Initially, the Tenant shall maintain the following coverage in the following amounts with such increases in limits as the Landlord may from time to time reasonably request based on customary limits

required by other sophisticated landlords of commercial and industrial space in the region.

(1) Comprehensive Public Liability Insurance, naming the Tenant, the Landlord, the Landlord's lender (if any) and the property manager as additional insureds, covering any liability for bodily injury, personal injury (including death) and property damage arising out of the Tenant's operations, its assumed liability under this Lease (including contractual indemnities) and its use, manner of use and occupancy of the Premises, for limits of not less than:

Personal/Bodily Injury Liability	$1,000,000 each occurrence $5,000,000 annual aggregate
Property Damage	$1,000,000 each occurrence $5,000,000 annual aggregate

(2) Property Damage Insurance covering all trade fixtures, office equipment, merchandise and other items, including the Tenant's Personal Property, located within the Premises. Such insurance shall be written on an "all risk" of physical loss or damage basis, for the full replacement cost of the covered items and in amounts that meet any coinsurance clause of the policies of insurance.

(3) Business Interruption Insurance in such amounts as will reimburse the Tenant for direct or indirect loss of earnings attributable to perils insured against in this PARAGRAPH.

(b) Prior to the Commencement Date, the Tenant shall furnish the Landlord with certificates evidencing the coverage required above. The certificates shall state that the coverage is primary and noncontributory and may not be changed or canceled without at least ten (10) days' prior written notice to the Landlord and the Tenant.

(c) The Tenant shall comply with all Laws, all orders and decrees of a court and all requirements of other governmental authorities and agencies and political subdivision thereof applicable to the use, manner of use and occupancy of the Premises and Common Areas, and shall not, directly or indirectly, make any use of the Premises or Common Areas which may thereby be prohibited or be dangerous to any Person or property, or which may jeopardize any insurance coverage purchased by the Landlord, or may increase the cost of such insurance, or which may require the Landlord to purchase additional insurance coverage. If by reason of the Tenant's failure to comply with the provisions of this PARAGRAPH, any of the Landlord's or Tenant's insurance coverage is jeopardized or the Landlord's insurance premiums are increased specifically due to Tenant's actions, the Landlord may (1) in its sole discretion terminate this Lease if the Tenant fails to stop the conduct which is jeopardizing such coverage or, (2) require the Tenant to make immediate payment as additional rent of such

increased insurance premium incurred by the Landlord, or (3) assure continued coverage of the Landlord by all commercially reasonable means available, including payment of premiums, in which event the Tenant shall reimburse the Landlord for all costs incurred therefor as additional rent.

PARAGRAPH 25. CONDITION OF PREMISES.

The Tenant's taking possession of and operation in the Premises shall be conclusive evidence against the Tenant that the Premises were in the condition required by the provisions of this Lease when the Tenant took possession, subject only to completion of punch list items if, and to the extent required by this Lease. No promise of the Landlord to alter, remodel or improve the Premises, the Building or the Site, and no representations respecting the condition of the Premises, the Building or the Site have been made by the Landlord to the Tenant except as specifically expressed in this Lease. At the end of the Term by lapse of time or otherwise, the Tenant shall return the Premises to the condition required by PARAGRAPH 8 and, in addition, in as good a condition as when the Tenant took possession, ordinary wear and loss by fire or other casualty required to be insured by the Landlord hereunder excepted. If the Tenant fails to comply with such obligation, the Landlord may restore the Premises as required by the provisions of this Lease and the Tenant shall pay the cost thereof as additional rent and this obligation shall survive the end of the Term.

PARAGRAPH 26. INDEMNITY.

(a) The Tenant agrees to indemnify, defend, and save harmless the Landlord and Landlord's officers, directors, employees, agents, invitees, licenses,

subsidiaries, contractors, successors, and assigns from, any and all claims, actions, demands and liabilities (collectively, the "Claims") and reimburse the Landlord for all costs, expenses, fines, penalties, remedial actions, reasonable attorneys' fees and court costs incurred by reason of a Claim, when a Claim is made by or on behalf of any third party and arises from or is alleged to arise from (1) the use, manner of use, or occupancy of the Premises, the Building or the Site by the Tenant or Tenant's Agents, or from any activity, work, or thing done, permitted or suffered by the Tenant or Tenant's Agents in or about the Premises or the Building or on or about the Site, or from (2) any breach or default in the performance or observance of any provision in this Lease on the Tenant's part to be performed or observed, or from (3) any willful misconduct or negligent act or omission of the Tenant or Tenant's Agents in or about the Premises or the Building or on or about the Site.

(b) The Landlord hereby agrees to indemnify and save harmless the Tenant and its officers, employees and agents from all claims, costs, damages, demands, expenses, fines, judgments, liabilities and losses (including reasonable attorneys' fees, expert witness fees, consultant fees, and other costs of defense) which arise during or after the term of this Lease from or in connection with the presence or suspected presence of Hazardous Materials in the soil, groundwater, air or soil vapor on or under the site, provided however, that this indemnity, defense and reimbursement obligation shall be enforceable against the Landlord only if (i) the Tenant is in full compliance with the Environmental Laws and the Site rules, and (ii) the Hazardous Materials are present solely as a result of the negligence or willful misconduct of the Landlord.

(c) Any obligation by one party to indemnify the other in this Lease is conditioned upon prompt written notice of such claim and demand to indemnify and the furnishing of information and reasonable assistance by the party demanding the indemnity.

(d) The provisions of this Paragraph 26 shall survive the expiration or termination of the Term.

PARAGRAPH 27. QUIET ENJOYMENT.

The Landlord covenants and agrees that on paying the rent and performing and observing the covenants on the Tenant's part to be performed and observed hereunder, the Tenant shall and may peaceably and quietly hold and enjoy the Premises for the Term, subject to the provisions of this Lease.

PARAGRAPH 28. PARKING.

(a) Commencing as of the Commencement Date and continuing thereafter throughout the Term the Landlord shall provide the Tenant unreserved parking spaces (the "Tenant's Parking Spaces") in the general parking area of the Building, as outlined on EXHIBIT B.

(b) The Tenant, on behalf of itself and Tenant's Agents, waives any claims for damage, theft and, without limitation, any other loss however caused, to vehicles (including contents therein) located in the Tenant's Parking Spaces, it being agreed that any user of the Tenant's Parking Spaces shall look exclusively to its own funds or insurance coverage if there is such a loss. The Landlord may require each user to sign a waiver of claims as a condition to using the Tenant's Parking Spaces.

(c) The Tenant may permit use of the Tenant's Parking Spaces only by the Tenant and its directors, employees, agents, invitees and contractors.

(d) From time to time, the Landlord may establish reasonable rules for the safe and efficient operation of the parking areas which are located on the Site or off-site and controlled by the Landlord. Within ten (10) days after notice of these rules is received by the Tenant, the Tenant shall cause all users of the Tenant's Parking Spaces to comply with them.

PARAGRAPH 29. ENVIRONMENTAL MATTERS.

(a) The words "Environmental Law(s)" mean and include all applicable existing and future statutes, ordinances, codes, regulations, rules, rulings, orders, decrees, directives, and other laws and requirements by any federal, state or local governmental authority regulating the Site (including the Premises), relating to or imposing liability or standards of conduct related to environmental control or protection of the environment, including but not limited to (1) the Consent Order attached in Exhibit C; (2) the New York State

Department of Environmental Conservation Part 373 Hazardous Waste Management Permit, effective September 29, 1995 which is incorporated in this Lease by reference; (3) the United States Environmental Protection Agency Hazardous and Solid Waste Amendments of 1984 Permit, effective November 3, 1995 which is incorporated in this Lease by reference; and (4) the New York State Department of Environmental Conservation SPDES Permit, effective May 1, 1993 and modified on April 13, 1995 which is incorporated in this Lease by reference.

(b) The words "Hazardous Materials" mean (1) any material or substance: (i) which is defined or becomes defined as "hazardous substance" "hazardous waste," "toxic substance," "infectious waste," "chemical mixture or substance," or "air pollutant" under the Environmental Laws; or (ii) containing polychlorinated biphenyl; or (iii) containing asbestos, radon, gas or urea formaldehyde foam insulation; or (iv) which is radioactive; or (2) any other material or substance, which is or becomes identified, defined, or regulated by the Environmental Laws.

(c) The words "Handle," "Handled," or "Handling," each shall mean and include any installation, handling, generation, storage, treatment, use, disposal, discharge, release, manufacture, refinement, presence, migration, emission, abatement, removal, transportation, or other activity of any type in connection with or involving Hazardous Materials.

(d) No Hazardous Materials shall be introduced by the Tenant to the Site without notice to the Landlord and the Landlord's prior consent. All Hazardous Materials shall be delivered to the IBM designated location on the Site before it is delivered to the Premises. The Tenant shall pay as additional rent, the fees for such deliveries to the Premises, as specified in Schedule C. At no time shall the Tenant introduce onto the Site the Prohibited Substances listed in Rider A.

(e) Prior to the Handling by the Tenant of any Hazardous Material not in use on the Commencement Date, the Tenant and the Landlord shall review full compliance relating to the specific Hazardous Material with the Environmental Laws and IBM Rules, provided that at all times the Tenant shall comply with Environmental Laws and IBM Rules. If the Tenant's use in the Building or the Premises requires prior permitting by the federal, state or local government or any regulatory agency, the Landlord shall apply for said permitting provided the Tenant provides the Landlord with reasonable notice of its Hazardous Material requirements, except as stated in subparagraph (f). The Tenant shall reimburse the Landlord as additional rent for all reasonable related fees and costs

associated therewith which are authorized by the Tenant in advance or are required by any Laws. Under no circumstances shall the Tenant use any new Hazardous Material on the Premises without full compliance.

(f) If the Landlord is not lawfully permitted to apply for environmental permits on behalf of the Tenant pursuant to the Environmental Laws, the Tenant shall, in compliance with the Environmental Laws, apply for said permits. Prior to said application, the Tenant shall notify the Landlord.

(g) The Tenant shall give the Landlord prompt notice of any potential violation of an Environmental Law, any pending or threatened claim regarding any Environmental Law, or any spill or release of contaminants to the environment at the Site of which it is aware. Any party indemnified pursuant to Paragraph 29 that intends to seek indemnification for any claim pursuant to Paragraph 29 shall provide the indemnifying party prompt notice of such a claim and offer the indemnifying party the opportunity to control the defense of the claim, and to make final or partial settlement of any such claim, and to arrange for any actions, including clean- up activities, which are necessary for the Site to comply in whole or in part with Environmental Law or to settle such a claim. Neither party shall take any action which prejudices the other party's rights under this Lease and shall fully cooperate in the defense and settlement of any such matter. The indemnified party may hire its own counsel to consult with the indemnifying party at its own expense. The indemnified party shall also have the right at its own expense to participate in and be separately represented in the defense of any claim that would subject indemnified party to liability to the indemnifying party to this paragraph if any portion of such claim (or the allegations that provide the basis for such claim) were adjudicated or determined by any governmental agency, court or other tribunal in favor of the claimant; and any settlement of any such claim that causes the indemnified party to be liable for the payment of any damages, costs, penalties, or other monetary consideration or requires the indemnified party to admit wrongdoing shall require the prior written consent of the indemnified party.

(h) After the Commencement Date, the Landlord or a firm of its choosing shall have the right from time to time to make environmental investigations of the Premises upon no less than 24 hours advance notice to Tenant (except in cases of emergency where no notice will be required). The Tenant shall cooperate in all respects by providing access to the Premises and to all necessary and non-confidential documents and data in the Tenant's possession (including records of Tenant's chemical inventories, environmental reporting documents made to federal, state and local authorities and any documents related to spill or release covered by such investigations). Without limiting the generality of the above, the Landlord shall have the right to make such an investigation at least every six months while the Tenant operates the Premises and at any time the Tenant ceases to occupy a substantial portion of the Premises, and at any time receives notice of a violation of an Environmental Law, a spill or threatened spill or release of contaminants to the Premises or any pending or threatened claim. The Landlord shall provide the Tenant with the results (including a complete copy) of any such investigation. The Landlord shall not disclose any information obtained in, or any results of, such environmental investigation to any Person other than Tenant without Tenant's prior written permission, unless (1) disclosure is required by Law, necessary to prevent harm in an emergency or limited to information already disclosed, and (2) Landlord provides Tenant written notice ten (10) days prior to disclosure or, if such notice is prohibited by Law or would prevent appropriate emergency response, as soon as allowable by Law or practicable in any emergency.

(i) If at any time after the Commencement Date, the Landlord is required by an Environmental Law or, on its own initiative, desires to perform environmental remediation at the Premises ("Landlord Remediation Activities"), the Tenant agrees to provide access to the Landlord for any such purpose, (including granting the Landlord any appropriate property easements to facilitate such cleanup efforts), and will cooperate with the Landlord to remediate the Premises as the Landlord, in its sole but reasonable discretion, deems necessary and appropriate. Landlord shall provide Tenant with written notice no less than fifteen (15) days prior to obtaining access to the Premises for Landlord Remediation Activities (except in the case of emergency where no such notice will be required or where a shorter time period is required by Law) and Landlord shall use reasonable efforts to consult with Tenant with respect to the timing and scope of such Landlord Remediation Activities. Landlord shall use reasonable efforts to minimize interference with Tenant's use and occupancy of the Premises during the performance of any Landlord Remediation Activities.

(j) The Landlord shall conduct its operations, including, without limitation, services provided under contract with Tenant, (including, without limitation, this Lease) in compliance with applicable Environmental Laws and shall provide other occupants and tenants with appropriate guidance to enable them to conduct their operations at the Site in compliance with all applicable Environmental Laws. The Landlord shall maintain in full force and effect all material permits, licenses and other authorizations that are required under the Environmental Laws with respect to the Landlord's operations at the Site, including services provided under contract to the Tenant. Tenant and its agent shall have the right, on an annual basis, to have a compliance audit performed on the treatment, storage, disposal, recordkeeping and other activities performed by Land lord for the benefit of Tenant with respect to Landlord's management of Tenants Hazardous Materials in accordance with its obligations pursuant to this Lease. Tenant shall give Landlord seven (7) days advance written notice of such audit, and Landlord shall provide Tenant reasonable access to those areas where the Hazardous Materials Activities are performed in order to enable Tenant to complete such audit. Landlord shall also provide Tenant access to all non-confidential records necessary to the performance of such audit. Tenant shall not disclose such records except upon the same basis that Landlord is permitted to disclose Tenant's records under subsection (h) of this Paragraph 29.

(k) Hazardous Materials discharged by the Tenant in compliance with this Lease to Building drain systems for treatment and discharge pursuant to an approved State of New York SPDES permit shall become the responsibility of the Landlord after the Hazardous Materials have left the Premises and entered the Site drainage systems. The Tenant shall remain liable for its proportionate share of any residual sludge generated as a result of treatment of its aqueous wastes at the Site's waste treatment plant, which are then containerized and disposed of at a governmentally permitted and approved off-Site disposal facility. Notwithstanding the foregoing, to the extent permitted by the Environmental Laws, the Landlord will manage the Tenant's Hazardous Materials on the Site in accordance with its obligations pursuant to this Lease, and the Landlord will exercise the same diligence and care with respect to the transportation and disposition of the Tenant's Hazardous Materials as it exercises with respect to its own Hazardous Materials and the Landlord will

require that all Persons and/or entities transporting or disposing the Tenant's Hazardous Materials obtain and maintain all permits and authorizations required by Environmental Laws in connection with such transportation or disposal.

(l) The Tenant shall comply with the Landlord's instructions regarding compliance with the Environmental Laws.

(m) The Tenant agrees to indemnify, defend and hold harmless the Landlord and the Landlord's Agents from and against any loss, liability, claim, damages or expenses (including reasonable fees for legal and other advisors), suffered or incurred by any such indemnified party to the extent arising from a release on or from the Premises of any Hazardous Materials (including any condition stemming therefrom), or which arises from any other adverse environmental condition which release or condition violates the Environmental Laws or is required to be investigated or remediated pursuant to an Environmental Law and which is caused by Tenant or is attributable to the Tenant because of the acts of third parties related in contractual privity to the Tenant during the course of such third parties' activities on the Premises or activities performed at the request or for the benefit of Tenant or its contractors, subcontractors, agents or employees, other than the Landlord, the Landlord's Agents, other Site occupants or tenants, and which occurred or which was caused by the Tenant or any such third party after the Commencement Date or because of any due diligence testing done by the Tenant prior to the Commencement Date. The Tenant understands that, subject to the conditions provided in Paragraph 29 (k) above, (1) Hazardous Materials generated by the Tenant, which are containerized or bulked for transportation and disposal off-Site at governmentally permitted and approved disposal facilities, shall be the responsibility of the Tenant, and (2) all title, risk and liability for the release or discharge of said Hazardous Materials during transportation or disposal of such materials under applicable Environmental Laws shall remain with the Tenant. Except as otherwise provided for herein, the Tenant shall indemnify the Landlord, pursuant to the terms and conditions of this subparagraph (m), for any and all liability resulting from a release or discharge of such Hazardous Materials. The provisions of Paragraph 29(m) shall survive the expiration or termination of the Term.

(n) (1) If at any time after the Commencement Date, a release of any

Hazardous Materials (including any condition stemming therefrom) occurs on or from the Site and violates and Environmental Law, or is required to be investigated or remediated under Environmental Laws, and the cause of said release cannot be reasonably determined, then: for any such release occurring within the interior walls of the Premises, the Tenant shall indemnify the Landlord pursuant to this Paragraph.

(2) Landlord shall provide Tenant reasonable access to any and all publicly available information in Landlord's possession or control relating to the presence, on or about the Premises or the Site (including the soil, groundwater or improvements thereon), of any Hazardous Materials. Landlord shall also provide to Tenant reasonable access to results from any and all environmental testing performed by Landlord on the Premises at any time before or during the Tenant's occupancy of the Premises.

(o) The Tenant shall provide to the Landlord, on an annual basis and as requested, regardless of the volume of waste generated or chemical used, information regarding the Tenant's waste minimization activities and chemical usage. Emphasis in the waste minimization activities shall be placed on the source reduction of hazardous wastes as required by the Environmental Laws. The information provided by the Tenant, and information generated by the Landlord regarding the Tenant's waste generation and chemical usage, shall be provided by the Landlord to regulatory agencies to fulfill environmental reporting obligations of the Landlord under the Environmental Laws. The waste minimization information provided by the Tenant to the Landlord shall be sufficient to enable the Tenant to comply with hazardous waste manifest and annual reports.

(p) Consistent with its responsibilities under this Paragraph, the Tenant agrees to prepare and execute documentation related to environmental duties or obligations which may be required by the Landlord or governmental authorities to comply with the Environmental Laws.

PARAGRAPH 30. LIMITATION ON LIABILITY.

(a) Anything herein to the contrary notwithstanding, it is expressly understood and agreed by and between the parties hereto that each and every representation, covenant, undertaking and agreement herein made by the Landlord, while in form purporting to be a representation, covenant, undertaking and agreement of the Landlord, are nevertheless, made and intended not as personal

representations covenants, undertakings and agreements by the Landlord or for the purpose or with the intention of binding the Landlord personally, but are made and intended for the purpose of binding only the Landlord's interest in the Site and for no other purpose whatsoever. In the event of a default by the Landlord, the Tenant shall look solely to the interest of the Landlord in the Site. No duty shall rest upon the Landlord to sequester the Site g or the rents, issues and profits arising therefrom, or the proceeds arising from any sale or other disposition thereof. The Tenant shall have no recourse to the assets, tangible or intangible, of the Landlord excepting only the Landlord's interest in the Site. Without limitation, no personal liability or personal responsibility is assumed by nor shall at any time be asserted or enforceable against the Landlord on account of this Lease or on account of any representation, covenant, undertaking or agreement of the Landlord in this Lease contained, either expressed or implied, all such personal liability, if any, being expressly waived and released by the Tenant. The foregoing limitation on the Landlord's liability shall inure to and for the benefit of the Landlord and its successors and assigns and their respective shareholders, officers, directors, partners, agents and employees.

(b) THE TOTAL CUMULATIVE LIABILITY OF THE LANDLORD AND THE EXCLUSIVE REMEDY FOR ANY AND ALL LOSSES AND DAMAGES, OR THE RIGHT TO ANY OTHER FORM OF RELIEF BY THE TENANT, ARISING OUT OF ANY CAUSE WHATSOEVER UNDER ANY THEORY OF CONTRACT, TORT, STRICT LIABILITY, OR OTHER LEGAL OR EQUITABLE THEORY SHALL BE LIMITED TO ACTUAL DIRECT DAMAGES NOT TO EXCEED SIX HUNDRED AND FIFTY THOUSAND DOLLARS ($650,000), PROVIDED THAT IN NO EVENT SHALL THE LANDLORD BE LIABLE FOR LOST PROFITS, SPECIAL, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES UNDER THIS LEASE.

(c) The provisions of this Paragraph 30 shall survive the termination or expiration of the Term.

PARAGRAPH 31. ESTOPPEL CERTIFICATE.

The Tenant agrees that, from time to time upon not less than ten (10) days after the Landlord's request, the Tenant, or the Tenant's duly authorized representative having knowledge of the following facts, will deliver to the Landlord a statement in writing certifying (a) that this Lease is unmodified and in full force and effect (or if there have been modifications, a description of such modifications and that this Lease as modified is in full force and effect); (b) the dates to which rent and other charges have been paid; (c) that the Landlord is not in default under any provision of this Lease, or, if in default, the nature thereof in detail; and (d) such further matters as may be requested by the Landlord, it being intended that any such statement may be relied upon by any mortgagees or assignees of the Landlord, or prospective mortgagees or assignees of the Landlord, or prospective transferees or purchasers of all or part of the Landlord's interest in the Site and/or any buildings thereon. The Tenant shall execute and deliver whatever instruments may be required for such purposes, and if the Tenant fails so to do within ten (10) consecutive days after demand in writing, the Tenant shall be considered in default under this Lease and the Landlord is hereby granted the power as attorney- in-fact for the Tenant to unilaterally execute and deliver such estoppel and other instruments on behalf of the Tenant.

PARAGRAPH 32. ACCESS TO THE PREMISES.

(a) Identification Badges. The Landlord shall provide the Tenant with identification badges to be worn by the Tenant's employees (the "Employees") working in the Premises. These badges shall give the Employees access to the Premises during normal working hours (hereinafter defined). Identification badges for the Employees shall state the Tenant's name and name of the Employee but shall not include the name of the Landlord. The Landlord shall, at the Tenant's request, provide to the Tenant's vendors (the "Vendors") identification badges which shall give the Vendors access to the Premises during normal working hours. The Tenant shall be responsible for returning to the Landlord's security department the identification badge of: (i) any Employee who is no longer employed by the Tenant; (ii) any Vendor when such Vendor no longer requires access to the Premises; and (iii) all Employees and Vendors upon expiration or earlier termination of this Lease. All lost badges shall be immediately reported to the Landlord's security department.

(b) Access Outside Normal Working Hours. The Landlord shall, upon reasonable advance notice from the Tenant to the Landlord's security department, provide identification badges to agents, licensees and invitees of the Tenant who require access to the Premises outside normal working hours. As used in this PARAGRAPH 32., the words "normal working hours" shall mean 8:00 A.M. to 6:00 P.M., Monday through Friday, excluding the Saturdays, Sundays and Holidays.

(c) Access by Emergency Response Personnel. Notwithstanding anything to the contrary contained herein, the Landlord's personnel shall have access to the Building and the Premises for the purpose of responding to an emergency involving the Premises.

PARAGRAPH 33. MISCELLANEOUS.

(a) After the termination of this Lease, no receipt of money by the Landlord from the Tenant, service of any notice, commencement of any suit, or final judgment for possession of the Premises shall renew, reinstate, continue or extend the Term or affect any such termination notice, demand, suit or judgment.

(b) No waiver of any default hereunder of either party shall be implied from any omission by the other to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in a written waiver and then only for the time and to the extent therein stated. The invalidity or unenforceability of any provision of this Lease shall not affect or impair any other provision and the invalid or unenforceable provision shall be deemed modified and restated to comply with Law.

(c) The word "Tenant" wherever used in this Lease shall be construed to mean "Tenants" in all cases where there is more than one tenant, and the necessary grammatical changes required to make the provisions hereof apply either to corporations, firms or individuals, men or women, shall in all cases be assumed as though in each case fully expressed.

(d) Provisions inserted herein or affixed hereto shall not be valid unless appearing in the duplicate original hereof held by the other party hereto.

(e) Each provision hereof shall extend to and shall, as the case may require, bind and inure to the benefit of the Landlord and the Tenant and their respective legal representatives, successors and permitted assigns.

(f) The headings of Paragraphs, Sections and subparagraphs are for convenience only and do not limit or construe the contents of the Paragraphs, Sections or subparagraphs.

(g) Submission of this instrument for examination does not constitute a reservation of or option for the Premises. This instrument becomes effective as a lease upon execution thereof by both the Landlord and the Tenant and delivery of an executed counterpart to each other.

(h) At the Landlord's discretion, all sums due and owing to the Landlord hereunder shall bear interest from their due date until paid at the rate of 1.5% per month. All such amounts other than Base Rent shall be deemed additional rent and shall be paid within thirty (30) days from the date shown on the applicable statement of account.

(i) No rights to any view or to light or air over any property, whether be longing to the Landlord or any other Person, are granted to the Tenant by this Lease.

(j) All rights and remedies of the Landlord and the Tenant under this Lease shall be cumulative and none shall exclude any other rights and remedies allowed by Law or in equity.

(k) The Landlord and the Tenant shall have the right to apply payments received from the other pursuant to this Lease (regardless of the designation of such payments by the payor) to satisfy any obligations of the other hereunder, in such order and amounts as the payee in its sole discretion may elect.

(l) Time is of the essence of this Lease and each of its provisions.

(m) This Lease shall be strictly construed neither against the Landlord or the Tenant; each provision hereof shall be deemed both a covenant and a condition running with the land; except as otherwise expressly provided in this Lease and its Riders, Schedules, Exhibits and other attachments, the singular includes the plural and the plural includes the singular; "or" is not exclusive; a reference to an agreement or other contract includes supplements and amendments thereto to the extent permitted by this Lease; a reference to any Laws includes any amendment or supplement to such Laws; a reference to a Person

includes its permitted successors and assigns; accounting provisions have the meanings assigned to them by generally accepted accounting principles applied on a consistent basis; the words "such as," "include," "includes" and "including" are not limiting; when used in this Lease, the word "Person" means an individual, partnership, trust, corporation, firm or other entity; except as specifically agreed upon in this Lease, any right may be exercised at any time and from time to time and all obligations are continuing obligations throughout the Term of this Lease (and beyond if expressly agreed upon herein to survive the end of the Term); and in calculating any time period, the first day shall be excluded and the last day shall be included and all days are calendar days unless otherwise specified.

(n) This Lease shall be construed according to the laws of the State of New York.

(o) Each party agrees to pay the other party's attorneys' fees and costs of litigation if the party, for any reason whatsoever, brings suit against the other party and the other party is finally adjudicated not to have liability.

(p) As used in this Lease, the words "Excusable Delay" shall mean any delay or interruption due to strikes, lockouts or other labor or industrial disturbance; civil disturbance; accidents; the Landlord's ordinary negligence; future order of any government, court or regulatory body claiming jurisdiction; act of the public enemy; building component or utility system failure, unless attributable solely to the Landlord's willful misconduct or gross negligence; war, riot, sabotage, blockage or embargo; failure or inability to secure materials or supplies through ordinary sources by reason of shortages or priority or similar regulation or order of any government or regulatory body; lightning, earthquake, fire, storm, hurricane, tornado, flood, washout or

explosion, or act or omission of one party hereto which prevents the other party from complying, or which materially and adversely interferes with the claiming party's ability to comply with an obligation under this Lease on its part to be performed.

(q) The square footage of a floor shall be computed by measuring from the inside finished surface of the dominant portion of the permanent outer Building walls, excluding any major vertical penetrations of the floor. No deductions shall be made for columns and projections necessary to the Building.

(r) During the Term of this Lease, and for a period of one year thereafter, neither the Tenant or the Landlord will solicit for employment purposes the present employees of the other party without prior written approval from the employing party. This Lease does not in any manner restrict general solicitations for employment, or the right of any employee of one party on his or her own initiative or in response to general solicitations to seek employment from the other party.

PARAGRAPH 34. IBM-ESDC Sale-Lease back

FED Corporation acknowledges and agrees to the following:

(a) On December 31, 1998, International Business Machines Corporation, a corporation with an office at 1580 Route 52, Hopewell Junction, New York 12533 (referred to in this PARAGRAPH as "IBM" and referred to elsewhere in the Lease as "Landlord") and The New York State Urban Development Corporation d/b/a Empire State Development Corporation, a corporation with an office at 633 Third Avenue, New York, New York 10017 (hereinafter referred to as "ESDC"), entered into a Sale-leaseback transaction (hereinafter referred to as the "Sale-Lease back") of the Site, including the Premises;

(b) As of December 31, 1998, (i) ESDC is the title owner of the Site, including the Premises, (ii) IBM is in possession of the Site as ESDC's tenant, and (iii) IBM is the operator of the Site;

(c) The Sale-Lease back contains provisions granting IBM the option to repurchase the Site during the fifteen (15) year term of the Sale-Lease back and provides for the reconveyance of the Site to IBM at the end of the term of the Sale-Lease back;

(d) FED Corporation shall have no third-party beneficiary rights under the Sale-Lease back;

(e) ESDC may enforce certain of IBM's rights under the Lease, including but not limited to inspection rights. Notwithstanding the foregoing, (i) nothing herein is intended to grant third- party beneficiary rights to ESDC different

from or in addition to those rights contained in the Sale-Lease back, and (ii) FED Corporation shall not tender performance hereunder to ESDC or send notices hereunder to ESDC without the specific prior written consent from an authorized representative of IBM in each instance;

(f) A breach by FED Corporation under the Lease may be a breach by IBM under the Sale-Lease back;

(g) In the event that FED Corporation receives a written notice from ESDC, FED Corporation shall promptly provide a copy of such notice to IBM's person designated for the receipt of notices in PARAGRAPH 11. In the event that FED Corporation receives an oral notice from ESDC, FED Corporation shall promptly inform IBM's person designated for the receipt of notices in PARAGRAPH 11 of the substance of such oral notice; and

(h) As a subtenant possessing Premises owned by an agency of the State of New York, FED Corporation shall be bound by and shall include the following subparagraphs (1) through (5) of this section or substantially similar subparagraphs, in such a manner that said subparagraphs shall be binding upon the parties with whom prospective construction contracts with respect to the Premises are entered into:

(1) Contractor shall not discriminate against employees or applicants for employment because of race, creed, color, religion, national origin, ancestry, sex, age, disability or marital status and shall insure that employees and applicants are afforded equal employment opportunities

without discrimination.

(2) At the request of IBM, Contractor shall request each employment agency, labor union and authorized representative of workers with which it has a collective bargaining or other agreement or understanding, to furnish it with a written statement that such employment agency, labor union or representative will not discriminate because of race, creed, color, religion, national origin, ancestry, sex, age, disability or marital status and that such union or representative shall affirmatively cooperate in the implementation of Contractor's obligations hereunder.

(3) Contractor shall state in all solicitations or advertisements for employees placed by or on behalf of Contractor that all qualified applicants shall be afforded equal employment opportunities without discrimination because of race, creed, color, religion, national origin, ancestry, sex, age, disability or marital status.

(4) Contractor shall comply with the provisions of Sections 291-299 of the Executive Law of the State of New York.

(5) Contractor shall include the foregoing provisions of subparagraphs (1) through (4), above, or substantially similar provisions in every subcontract, in such a manner that said provisions shall be binding upon the subcontractor as to its work force on the Premises.

(6) With respect to the Premises, FED Corporation covenants and agrees that it shall (i) neither commit nor permit discrimination or segregation by reason of race, creed, color, religion, national origin, ancestry, sex, age, disability or marital status ("Discrimination") in any permitted sale, transfer or assignment of its interest under this Lease or in any permitted subleasing, use or occupancy of the Premises or any part thereof or in connection with any permitted erection, maintenance, repair, restoration, alteration or replacement of, or addition to, and Building; (ii) not willfully engage in any personnel practices which may have a discriminatory effect; and (iii) comply with all federal, state and local laws, ordinances, rules, and regulations from time to time in effect prohibiting Discrimination or segregation or pertaining to equal employment opportunities.

FED Corporation shall assist and cooperate actively with IBM in obtaining compliance by FED Corporation's agents, contractors and subcontractors with the applicable provisions of this PARAGRAPH.

Riders A, B, C and D; EXHIBITS A1, A2, A3, A4, B, C, and D; and Schedules A, B, C, D, and E are attached hereto and made a part of this Lease.

This Lease, consisting of the foregoing terms and conditions; Riders A, B, C and D; Exhibits A1, A2, A3, A4, B, C, and D, hereto; and Schedules A, B, C, D, and E hereto, constitutes the complete and exclusive agreement between

International Business Machines Corporation and FED Corporation superseding any prior or contemporaneous agreements, written or oral, relating to the subject matter herein.

IN WITNESS WHEREOF, this instrument has been executed by the duly authorized representatives of the parties hereto as of the day and year first above written.

INTERNATIONAL BUSINESS MACHINES CORPORATION

By: /s/ Raymond V. Wagner Title: Sr. Program Manager

Print Name: Raymond V. Wagner Date: 5/28/99

Witness: Thomas P. Short

FED CORPORATION

By: Gary W. Jones Title: President & CEO

Print Name: Gary W. Jones Date: May 28, 1999

Witness: Diane Stafford

RIDER A

IBM RULES
(As of February 17, 1997)

Attached to and made part of

Lease

between

International Business Machines Corporation
and
FED CORPORATION, Tenant

Pursuant to the provisions of Paragraph (17) of the Lease, the Landlord reserves the right to delete, modify, and add additional IBM Rules.

For the purposes of these IBM Rules, the word "Tenant" shall include the Tenant and the Tenant's Agents (defined in Paragraph 3(a) of the Lease).

1. The sidewalks, halls, passages, elevators and stairways, exits, entrances, and other common areas shall not be obstructed by the Tenant or used for any purpose other than for ingress to and egress from the Premises. The halls, passages, exits, entrances, elevators and stairways, balconies and roof are not for the use of the general public, and the Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence in the sole judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants. However, nothing stated above shall be construed to prevent such access to persons with whom the Tenant normally deals in the ordinary course of its business unless such persons are engaged in illegal activities. The Tenant and its employees and invitees shall not go upon the roof of the Building without the written consent of the Landlord which the Landlord may withhold in its sole discretion.

2. The bathroom facilities shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage, or damage, resulting from a violation of this rule, shall be borne by the Tenant who, or whose employees, agents, contractors, or visitors, shall have caused it.

3. If the Landlord, by notice in writing to the Tenant, shall object to any curtain, blind, shade or screen attached to, or hung in, or used in connection with, any window or door of the Premises, such use of such curtain, blind, shade or screen shall be forthwith discontinued by the Tenant.

4. None of the Tenant's Personal Property or other items heavier than the lift capacity of the freight elevators of the Building shall be brought into or installed in the Premises. The Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry and which is allowed by law. The moving of heavy items shall occur only between such hours as may be designated by, and only upon previous notice, to the property manager, and the persons employed to move these heavier items in or out of the Building must be acceptable to the Landlord. No freight, furniture or bulky matter of any description shall be received into the Building or carried into the elevators except during hours and in a manner approved by the Landlord.

5. Supplementing Paragraph 8., if the Tenant desires telephone or other telecommunication connections from a provider other than the Landlord, the Landlord will direct electricians as to where and how the wires are to be introduced. No boring or cutting for wires or otherwise shall be made without specific directions from the Landlord. When installing wire or cabling within the Building, the Tenant shall follow all applicable codes and the Landlord's telecommunication rules.

6. The Tenant, upon the termination of its tenancy, shall deliver to the Landlord all the keys of offices, rooms and toilet rooms which shall have been furnished to the Tenant or which the Tenant shall have had made.

7. On Saturdays, Sundays and Holidays, and on other days between the hours of 6:00 P.M. and 8:00 A.M., access to the Building, or to the halls, corridors, elevators or stairways in the Building, or to the Premises may be refused unless the Person seeking access has a pass approved by the Landlord or is otherwise properly identified. The Landlord shall in no case be liable to anyone for damages for the admission to or exclusion from the Building of any person whom the Landlord has the right to exclude under this Rule 7., or otherwise. In case of invasion, mob, riot, public excitement, or other commotion, the Landlord reserves the right to prevent access to the Site and the Building during the continuance of the same by closing the gates or doors or otherwise, for the safety of the tenants or the Landlord's employees and protection of property in the Building and on the Site.

8. Where badges are not in use, the Tenant shall not alter any lock or install a new or additional lock or any bolt on any door of the Premises without prior written consent of the Landlord. If the Landlord shall give its consent, the Tenant shall in each case furnish the Landlord with a key for any such lock. Call extension 4-5625 (4-LOCK) for service. Tenant shall not duplicate any keys provided by the Landlord.

9. Without the Landlord's prior written consent, the Tenant shall not use the name of the Building (whether or not the Building is named or commonly known as "The IBM Building" or the like) in its advertising or other publicity or on its stationery or other correspondence or otherwise, and shall not use pictures of the Building in advertising or publicity or otherwise.

10. The Tenant shall not make any room-to-room or building-to- building canvass to solicit business from other tenants or occupants in the Building or on the Site, and shall not exhibit, sell or offer to sell, use, rent or exchange in or from the Premises unless ordinarily embraced within the Tenant's expressed use of the Premises specified in the Lease.

11. The Tenant shall not waste electricity, gases, water, or air conditioning and agrees to cooperate fully with the Landlord to assure the most effective operation of the Building's heating, ventilation and air conditioning, and shall not allow the adjustment (except by the Landlord's authorized Building personnel) of any controls other than room thermostats installed for the Tenant's use.

12. The Tenant shall be solely responsible for having a Person present at the loading dock to receive all deliveries made to the Tenant at the loading dock and to deliver the same from the loading dock to the Premises.

13. Additional services requested by the Tenant shall be performed only pursuant to a separate service agreement between the Tenant and the Landlord.

14. The Tenant shall not conduct any auction, fire, bankruptcy, going out of business, liquidation or similar sales anywhere on the Site.

15. Without limiting any other obligation required by this Lease, the Tenant must obtain a permit or approval from the Landlord before:

a. Using products or tools using x-rays, (or other ionizing radiation sources), or laser products which operate at Class IIIa, IIIb or IV, or incorporate Class IIIb or IV lasers with the exception of properly used Class IIIa laser pointers.

b. Disturbing Asbestos containing material (ACM) or Presumed Asbestos containing material (PACM).

c. Working in an area where there is a reasonable potential to disturb ACM or PACM.

d. Internal combustion engine use indoors

e. Blasting or explosives use

f. Explosive (powder) actuated fastening tool use

g. Airlifting, crane, mobile crane, or hoist use

h. Use of powered industrial vehicles

i. Cutting, welding, burning, or open flame work

j. Entering a confined space

k. Moving or relocating any emergency equipment

l. Fire alarm system work or sprinkler system impairment

m. Hot work in hazardous areas

n. Using salamanders or heaters

Approvals/permits for 15 a, b, c, and d can be obtained through Industrial Hygiene. Approvals/permits for 15 e, f, g, and h are provided through Safety. Approvals/permits for 15 i, j, k, l, m, and n above, are provided through Emergency Control. The Landlord shall respond to a request for its approval within one (1) working day.

16. The Tenant, its employees, agents, contractors, invitees and guests shall not obstruct any sidewalk, road, driveway, Site or Building entrance, or any part of the common areas in and about the Building or the Site. The Tenant, its employees, agents, contractors, invitees and guests shall not park in areas where prohibited. The Tenant shall cause its employees, agents, contractors, invitees and guests to park only in the Tenant's Parking Spaces.

17. The Tenant shall not place objects against windows or post signs visible from outside a window which would be unsightly from the exterior of the Building, and will promptly remove any such objects or signs upon notice from the Landlord.

18. The Tenant shall not go into building systems areas of the Building, except to the extent permitted or required by the terms of the Lease and only when accompanied by the Landlord.

19. The Tenant shall not make noises, cause disturbances or vibrations, or use or operate any electrical or electronic devices that emit sound or other waves or disturbances or create odors, any of which may be unreasonably offensive to any people in the Building or (supplementing PARAGRAPH 2(b)) interferes with the operation of any device, equipment or radio or television broadcasting or reception from or within the Building or elsewhere, and shall not bring animals into, or allow animals to be brought onto the Site or into the Building except for the assistance of the disabled, without consent of the Landlord which it may withhold in its sole discretion.

20. No portion of the Premises shall be used for cooking, lodging or sleeping except customary and reasonable office microwave ovens and refrigerators for employee use.

21. Smoking is prohibited in all areas of the Building which includes hallways, rest rooms, lobbies, stairwells, elevators and all occupied and unoccupied space within the Building. The Tenant shall prohibit any employee, and other people entering upon the Tenant's premises from smoking or carrying a lighted cigar, cigarette or pipe, or form using a match or other flame-producing device for lighting any such item at any time during their presence in or upon the Building and the Premises. "Smoking" means inhaling, exhaling, burning or carrying any lighted cigar, pipe, cigarette, weed, plant or other combustible substance in any manner in any form.

22. The Landlord reserves the right to exclude or expel from the Site any Person who, in the sole judgment of the Landlord, is intoxicated or under the influence of liquor or drugs, or who poses a security risk to the Site or any occupant of the Site, or who shall in any manner threaten to do or does any act in violation of these Rules and Regulations.

23. The Tenant shall keep all portions of Premises, including vestibule, fixtures, windows and plate glass free from pests and vermin.

24. The Tenant shall store all its trash, refuse and waste materials within

the Premises or in such locations as the Landlord may designate and shall cause the same to be regularly removed at the Tenant's expense unless the Landlord has agreed in writing to remove it. All trash, refuse and waste materials shall be stored in adequate containers so as not to constitute a health or fire hazard or a nuisance to any other tenant. No burning of trash, refuse and waste materials shall be allowed.

25. Supplementing PARAGRAPH 8., the Tenant shall coordinate all its construction activities in the Premises so that such construction work does not interfere with the operations of other tenants or the Landlord. The Tenant shall

place all construction trailers in staging areas designated by the Landlord. The Tenant shall store all construction materials entirely within the Premises.

26. The Tenant shall cause all trucks making deliveries to or pickups from the Premises to utilize truck drives and loading dock facilities designated by the Landlord.

27. Controlling access to Site facilities is a primary security measure. It is essential that all persons who enter any Site facility are authorized and that an audit trail/record of this access and authorization exist. All tenants are required to display prominently their identification badge while on the Site.

28. Each of the Tenant's Employees and Vendors must badge-in individually and must not allow Persons behind them to enter unless they "light the light" with their own badge. If they do not have a badge or their badge does not work, direct them to the main lobby receptionist for visitor sign-in or a temporary badge, or to security badge operations to see why their badge does not work. If a badge is lost of stolen, IBM must be notified immediately. IBM reserves the right to challenge persons leaving or entering the Building or Site.

29. Non-Site people are provided dated, temporary badges. These individuals must sign in and out and require a Tenant escort at all times.

30. Visits by anyone employed by an IBM competitor must be pre- approved by the Landlord. This is necessary whether or not the visitor is representing the competing company at the time of the visit. An "IBM Competitor" is anyone who is in a business that competes with the business carried on by IBM at the Site, and any other business specified in writing to a tenant.

31. Any visit to the Site by a Person who is a representative of any organization of, or located within, a Restricted Trade Country, as defined, from time to time by the U.S. Export Regulations, requires the prior approval of the Landlord and the IBM Office of Area Counsel.

32. Do not park in restricted zones, which are reserved for the disabled, for medical personnel, or visitors, or which are marked with yellow lines. Unauthorized parking will result in a security violation. Violators may be subject to loss of Site driving and parking privileges. If the owner of an illegally parked vehicle cannot be located, the vehicle may be towed at the owner's expense.

33. All vehicles must yield "Right Of Way" to all pedestrians and at all pedestrian crossings and to all emergency vehicles. Site speed limit is 30 MPH unless otherwise posted. Parking lot speed limit is 10 MPH. Violators may be subject to loss of Site driving and parking privileges.

34. All tenants must supply vehicle registration of its employees to IBM Security. Such information may be used to contact the vehicle owner for matters involving the vehicle.

35. All fire and medical emergencies as well as threats and acts of violence must be reported immediately to IBM's security office, ext. 4-3333. All vehicles that may affect the health, welfare or safety of any occupant of the Hudson Valley Research Park/IBM East Fishkill must also be reported to IBM Security.

36. In the event of an emergency evacuation of a building, occupants of the Building will be notified via the Site public address system. (A distinctive set of tones followed by an announcement). All occupants must become familiar with their primary and secondary evacuation routes and group assembly location.

37. All non-emergency security related incidents, i.e., theft, vandalism, illegal drugs, violence, or any suspicious activity, should be reported immediately to the IBM Security office, extension 4-2000.

38. Weapons of any sort (e.g., guns, knives, archery equipment, explosives, and ammunition) are not permitted on Hudson Valley Research Park property. The manufacture, use, distribution, sale, or possession of illegal drugs or alcoholic beverages or other controlled substances, except for approved purposes, is prohibited on Hudson Valley Research Park property.

39. Cameras and recording devices may be used solely within the Tenant's Premises at any time without the consent of the Landlord, but may not be used in any other portion of the Site without the Landlord's written consent. Tenant

must obtain a camera pass for any camera brought into any building on the Site even for use only in the Premises.

40. If any serious personal injury or illness or significant damage to the Premises occurs in connection with the Tenant's operations, the Tenant shall immediately notify the Landlord of the event and provide a written statement of the facts of the incident by the close of the next business day.

41. The Tenant shall notify the Landlord if a charge of non- compliance with OSHA or any other regulatory agency is filed against the Tenant in connection with the Tenant's operations performed on the Premises.

42. The Tenant shall inform the Landlord if it has reason to believe that an event other than normal operating procedures may adversely affect the Landlord or other Tenants on the Site.

43. The Tenant shall notify the Landlord prior to using any Ionizing Radiation Source.

44. The following substances are prohibited from use at the Site:

Certain glycol ethers
(see Chemical Management and Environmental Manual 03-01-01 for list)
PCBs (new uses prohibited)
Polybrominated Biphenyls/Polybrominated Biphenyls Oxides (PCB(O)s)
The following substances are prohibited from use in production processes at the Site, and may be restricted or prohibited in other uses in the Landlord's sole discretion (e.g., development):

Carbon tetrachloride
Methylene chloride (only production use, is as chlorine feedback in vertical furnaces; no new uses in production or development)
CFCs (see Chemical Management and Environmental Manual 03-01-01 for list)
Halons (see Chemical Management and Environmental Manual 03-01-01 for list)
Perchlorethylene (no new uses in production or development) HCFCs (use as solvent is prohibited in production or development)
1,1,1 Trichloroethane (only production use is transformation use where it is consumed)
Trichloroethylene (new uses in production and development prohibited) Low level radioactive chemicals

Additional substances may be added to the above lists upon notice by the Landlord to the Tenant, in the Landlords sole discretion.

Additional information regarding chemical restrictions at the Site is contained in Chemical Management and Environmental Manual index 03-01-01.

45. The Tenant will become familiar with and ensure its contractors comply with the most current version of the IBM Contractor Guide. Copies of this document will be provided separately.

46. Tenant will observe the IBM East Fishkill/Hudson Valley Research Park Chemical Management and Environmental Manual, which is incorporated herein by reference. Copies of this document will be provided separately.

47. Toxic gasses with IBM classification #3 and #4 in the IBM East Fishkill/Hudson Valley Research Park Chemical Management and Environmental Manual (Health Hazard Gasses), if required for the operation of the Tenant

premises, must be provided only by authorized IBM Personnel. Toxic gas cabinets shall be operated only by authorized IBM Personnel and not Tenant Personnel. IBM requires reasonable notice before performing this service. All costs associated with this requirement will be the sole responsibility of the Tenant in an amount to be agreed to by Tenant and Landlord.

RIDER B

The word "Holidays" shall mean:

New Year's Day
Memorial Day
Independence Day
Labor Day
Thanksgiving Day
Christmas Day

The Landlord reserves the right to add additional holidays to the above list.

During these Holidays, service levels and support may be reduced, and Site access may be restricted.

In addition, unless otherwise notified, the Landlord may shut down the entire Site for the week of Independence Day or another one week period, as may be required.

RIDER C

Services Provided by the Landlord

1. BUILDING MAINTENANCE

IBM will provide labor and incidental materials to support facilities-related systems and equipment. This service is included in Base Rent.

All requests for IBM Facilities Maintenance services shall be placed by calling 894-8000. Minimal support will be provided during off-shift hours.

All emergency situations (e.g., chemical spills, leaks, and medical emergencies) must immediately be reported to IBM Emergency Control via telephone number 894-3333.

a. Service Boundaries

The Tenant will maintain Tenant's tools and equipment, including peripheral equipment that is controlled by the tool or operator control panel and which therefore can be considered part of the tool. IBM's Facilities Maintenance will generally be responsible from the source of the service, up to the first valve/main disconnecting device, on the service branch line extending from the main service line to the Tenant's equipment/tool. Maintenance of such valve or disconnecting device shall be the responsibility of IBM Facilities Maintenance.

IBM's Facilities Maintenance will maintain all services upstream of the last mechanical or electrical service disconnecting device, prior to entering the Tenant's equipment or tool. IBM's Facilities Maintenance will be responsible for actuating the main disconnecting device to induce power, air, vacuum, water, or any other Facilities service to the Tenant equipment or tools after performing the Tenant tool/service connection acceptance process. Only IBM's Facilities Maintenance will be permitted to perform this task.

The specific boundaries for Facilities Maintenance services are identified below:

(1) Tenant Equipment/Tools

IBM's Facilities Maintenance will not maintain fume hoods, sinks, gas storage cabinets (nontoxic), and clean work stations. This list is not intended to be all-inclusive.

(2) Drain Systems

IBM's Facilities Maintenance will maintain all drain systems downstream of and including the inlet fitting on the main or secondary

trunk line. The Tenant will maintain the drain system upstream of such fitting. Drain line flame arresters, if any, will be maintained by IBM's Facilities Maintenance, except where such devices are located within the Tenant's equipment or tools.

b. Miscellaneous

Installation or modification of Tenant's equipment that will enter the building ceiling plenum or extends into a building service area requires prior approval of IBM's Facilities Engineering/Maintenance and other IBM departments.

Tenant shall pay Landlord as additional rent, at the rate outlined in Schedule C, for (1) the time required by the Landlord to inspect any new or changed service or utility connections; and (2) the time required for the Landlord to respond to a service interruption that was caused by the Tenant, its employees, agents, or contractors.

2. SECURITY SUPPORT SERVICES

The Landlord will provide the following security support services:

- 24-hour staffed security control center that monitors all fire, safety, and security protection alarms.

- 24-hour emergency operator

- Issuance of photo identification access badges

- Site receptionist services

- Access control systems
  - Badge reader
  - Door keys/locks

- Building perimeter and site security patrols

- Traffic/parking control

- Camera/recording device pass control

- Security incident investigation

- After hours-telephone operator

- Site public address announcements and paging for emergencies only

IT IS AGREED THAT THE LANDLORD IS NOT AN INSURER AND THAT IT IS NOT THE INTENTION OF THE PARTIES THAT THE LANDLORD ASSUME RESPONSIBILITY FOR ANY LOSS OCCASIONED BY MALFEASANCE OR MISFEASANCE IN THE PERFORMANCE OF THE SECURITY SUPPORT SERVICES LISTED ABOVE OR FOR ANY LOSS OR DAMAGES SUSTAINED THROUGH BURGLARY, THEFT, ROBBERY, FIRE, OR OTHER CAUSES RELATED TO THE PROVISION OF THESE SERVICES.

3. SITE GROUNDS KEEPING SERVICES

SITE GROUNDS KEEPING services include lawn mowing, snow removal, and general upkeep of the outside grounds as necessary to maintain Site safety, hygiene, and aesthetics.

4. EMERGENCY CONTROL SERVICES

The Emergency Control (EC) department provides emergency response and emergency prevention services as follows:

1. Emergency Response

The department will respond to emergencies involving fire, chemical spills, medical situations, and confined space. An EC ambulance provides Basic Life Support; should Advanced Life Support be required, a vendor ambulance company is used. (Tenant is responsible for the cost of ALS ambulance support). During off-shift hours, EC provides first-aid services.

2. Reporting an Emergency

The Tenant will pre-plan an emergency action sequence for the Premises and communicate this sequence to its employees. The plan shall address:

a. Who should report an emergency.

b. Who should initiate an evacuation in the absence of the Tenant employee manager.

c. How to report emergencies. (The employee should call 4-3333, give name, building, floor, location, and number calling from.)

d. What to do after calling. (Inform others in the area. Meet emergency personnel. Remain available for information.)

3. Emergency Phone Number Decals

Emergency Control requires that every phone have a decal on it that displays the emergency number 4-3333. The decals are available from the Emergency Control department. Call 4-2222 to obtain them.

4. Evacuation Procedure

The Tenant will post an evacuation route, which includes a primary and secondary route, and keep it current. In an evacuation, the Tenant's employees will go to a pre-selected area in the parking lot, at least 250 feet from the building. All personnel will be accounted for by the Tenant. Whenever Tenant calls for an evacuation, the emergency must be reported on 4-3333 so that appropriate emergency personnel can respond.

5. Preventive Services

The Premises will be inspected by EC technicians each month to assure compliance with New York State fire laws and insurance company requirements. The technicians will test the sprinkler system, smoke detection system, and extinguishing systems. The technicians will check the portable fire extinguishers, storage of chemicals, operation of fire doors, and for any potential fire hazards. When deficiencies are found, corrective action by the Tenant will be required. Before entering Tenant's area to do a monthly inspection, the EC technician contacts the Tenant to make arrangements.

6. Insurance Company Inspections

Annually, the property insurer tours each building with EC to review operations and buildings for compliance with their requirements. EC will seek prior approval from the Tenant before conducting these inspections.

7. Water Supply System

The EC department will inspect and maintain the fire valves and hydrants.

8. Portable Fire Extinguishers and Fire Hoses

The EC department will inspect all portable fire extinguishers and fire hoses for proper operation. Extinguishers and hoses not operating properly will be replaced. The EC technician will prearrange these inspections with the Tenant.

All portable extinguishers must be provided by the Landlord, unless needed in the support of Tenant construction activity.

9. Open Flame Permits

EC controls all open flame producing work through a permit system. This may include, but is not limited to, welding, soldering, and spark producing equipment. Tenant will obtain permit by calling the EC department. EC will dispatch a technician to inspect the area before and after the issuance of a permit.

10. Evacuation Drills

Emergency Control will conduct annual evacuation drills of the Premises. EC will contact the Tenant before the evacuation drill occurs. The Tenant will use the procedure outlined earlier under Emergency Response.

11. Confined Spaces

Confined Spaces are clearly marked with yellow and black signs. Under no circumstances will a Tenant employee enter one of these spaces unless issued a permit by the Emergency Control department.

5. ENVIRONMENTAL AND CHEMICAL MANAGEMENT SERVICES

The Landlord shall provide limited environmental engineering support and chemical management support to the Tenant. This includes interactions with and submissions to federal, state and local environmental regulatory agencies regarding Tenant activities (e.g., permitting, reporting) upon receipt of appropriate and timely information from the Tenant. The Tenant shall maintain ultimate accountability for compliance with all laws, regulations, and rules with respect to the Tenant's activities.

Disposal and treatment of hazardous and nonhazardous chemical wastes generated by the Tenant shall be through the Landlord and in accordance with requirements established by the Landlord. The off-site disposal of Tenant chemical wastes shall be consistent with the disposal methods used by the Landlord for its wastes. The Tenant may discharge wastes into site drain systems (dilute industrial acid, fluoride heavy metal and solvent) only upon prior written authorization from the Landlord and only if the wastes are compatible with the drain system and/or treatment facility. All chemical usage by the Tenant requires prior authorization by the Landlord. This includes use of new chemicals or increased use of existing chemicals. All chemical deliveries to the Tenant must be routed through the Landlord's chemical warehouse facility for processing by the Landlord.

For all chemicals other than class 4 toxic gases, the Tenant has the option of direct delivery from Tenant's supplier/carrier with processing at Landlord's chemical warehouse, or receipt from Tenant's supplier at Landlord's chemical warehouse with distribution by Landlord to the Tenant Building. Direct delivery from Tenant's supplier/carrier requires shipping instructions to specify "check in at B/304 with delivery to B/XXX." In case of handling class 4 toxic gases, all cylinders must be received at Landlord's chemical warehouse with distribution attended and supervised by Landlord. Refer to Schedule C for pricing.

6. SHIPPING/RECEIVING/INTERNAL DISTRIBUTION SERVICES

The IBM Materials Distribution Center (MDC) located within the Hudson Valley Research Park shall provide limited SHIPPING RECEIVING and INTERNAL DISTRIBUTION services to Tenant during normal IBM first shift business hours, (excluding holidays); Monday through Friday, 07:00 AM to 3:00 PM.

All shipping, receipts and internal distributions will occur within normal MDC turnaround times.

Tooling/rigging/special handling services are not covered under this agreement.

Tenant agrees they will not use this service to ship, receive distribute any HAZARDOUS, RESTRICTED or PERISHABLE MATTER such as, but not limited to, chemical, explosives, flammable materials, corrosives, compressed gasses, radio active materials, and poisons.

In no event shall IBM be liable for any damage or losses of packages or the contents thereof. Tenant shall be solely responsible for filing damage claims with external carrier and suppliers for all dangerous goods, including concealed damage.

Shipping, Receiving, and Internal Distribution services are provided on an "AS IS" basis, without warranty of any kind, express or implied.

A. Shipping

Customer carriers are to make all pickups at building 308 dock. MDC will meet carrier to load packages on carrier's truck and provide carrier with

customer's shipping documentation.

B. Receiving

MDC will receive packages from carrier at building 308.

C. Internal Distribution

MDC will provide delivery of packages to designated Tenant drop areas along with pickup of outgoing packages from same area. Drop areas and schedules shall be predetermined by MDC.

RIDER D

Loading Dock Access/Use by Tenants
Rules and Responsibilities

A. General

IBM will identify a loading dock to be used by the Tenant.

A limited number of Tenant personnel will be granted badge access to the designated loading dock door. All Tenant usage of the designated loading dock will be subordinate to IBM's need to utilize the loading docks.

Failure to comply with any of the conditions in this Rider D will require prompt corrective action to be taken by the Tenant. Repeated incidents may lead to termination of this privilege. In the event that loading dock privileges are terminated, shipping/receiving services will be required to be purchased.

It is the Tenant's responsibility to notify the suppliers of their assigned dock. Once the dock access is granted and agreed upon, IBM will not accept Tenant freight at Building 308. All Tenant freight will be redirected to their assigned dock.

B. Safety

Tenant agrees to provide training to designated Tenant personnel in the safe operation of dock equipment, overhead doors, and dock levelers.

Truck entry, exit, and maneuvering areas are to be kept clear of all obstructions, parked vehicles, pedestrians, and debris.

Pedestrian exits, such as stairs, are to be kept clear and clean.

Wheel chocks are available and are to be used during loading and unloading. The truck and trailer wheels must be properly chocked.

When loading or unloading trucks, the pitch of the truck bed, dock boards, or dock levelers must be limited to safe inclines.

Tenant will be responsible for and report immediately any damage or unsafe condition in the dock area. Call extension 4-8000.

IBM is not responsible for any injuries or damage caused by misuse of dock equipment.

C. Security

Tenant personnel will be responsible for the following security requirements related to the dock area:

* Dock is not to be left unattended while the loading dock door is in the "open" position.

* Tenant will challenge any personnel attempting to enter the building through the opened overhead loading dock door. Only those who are able to identify themselves as working for IBM Security or IBM Emergency Control are to be allowed entry through the opened overhead door. All other personnel are to be directed to the nearest badge controlled personnel entry door or to the main lobby in Building 320.

* Notify IBM Security (by calling 4-2000) immediately of any unauthorized or

uncooperative personnel. The Tenant is not to use any force in detaining or confronting any uncooperative individual(s).

Drivers and/or suppliers of the Tenant are not allowed to leave the dock area or enter the building for any purpose without following the established Access Control Procedures (obtain visitors badge).

EXHIBIT A1

FED Occupied Space Bldg. 310 First Floor

EXHIBIT A2

FED Occupied Space Bldg. 334 Second Floor

EXHIBIT A3

FED Occupied Space Bldg. 330C First Floor

EXHIBIT A4

FED Occupied Space Bldg. 320B First Floor

EXHIBIT B

PARKING PLAN

EXHIBIT C

ENVIRONMENTAL CONSENT ORDER

EXHIBIT D

Chemical Storage, Handling, and Waste Disposal practices
in
FED Corporation's Organic thin films Laboratory

SCHEDULE A

BASE RENT COMPUTATION SCHEDULE

SCHEDULE B

BASE RENT PAYMENT SCHEDULE

SCHEDULE C

UTILITIES/SERVICES PRICING SCHEDULE

SCHEDULE D

COMPUTED UTILITIES SCHEDULE

SCHEDULE E

LOAN AMORTIZATION SCHEDULE

Document is copied.

EXHIBIT 10.11

IBM

International Business Machines Corporation
Hudson Valley Research Park
20700 Route 52
Hopewell Junction, NY 12533-6531

Mr. Gary Jones
President and Chief Executive Officer
eMagin Corporation
Hudson Valley Research Park
2070 Route 52
Hopewell Junction, NY 12533-6531

January 29, 2001

Subject: Second Amendment to the Lease executed on May 28, 1999, between International Business Machines Corporation (IBM) and FED Corporation (FED)

Dear Mr. Jones:

This letter, upon your signed acceptance, amends the above referenced Lease between IBM and FED Corporation for space located at the Hudson Valley Research Park in Hopewell Junction, New York. The Lease shall be amended as follows:

1. In all occurrences within the above referenced Lease, of the name "FED Corporation", it is to be replaced with "eMagin Corporation".

2. In PARAGRAPH 4, TERM, EXTENSION, AND BUILD-OUT. (c) EXTENSION OPTION, (1): replace "...for one period of one year..." with "...for five periods of one year...".

Except as amended herein, all the terms and conditions of the Lease shall remain in full force and be effective. Please inciate your acceptance by signing two (2) copes of this letter and returning them to IBM for counter signature. Thank you.

Accepted and agreed to:

INTERNATIONAL BUSINESS MACHINES CORPORATION	eMagin Corporation
By: /s/Raymond J. Wagner	By: /s/ Gary Jones
Raymond J. Wagner Senior Program Manager, North Region Real Estate	Gary Jones President and Chief Executive Officer
Date: 1/30/01	Date: 1/31/01

Document is copied.

EXHIBIT 10.12

LEASE AGREEMENT

1. SPECIFIC INFORMATION:

1.1. The "Landlord" is Redson Building Partnership a Washington general partnership.

1.2. The "Tenant" is Vision Newco, a Delaware corporation.

1.3. Location of Premises: The "Premises" are the portion, which is crosshatched on the attached floor plan, of the building location on the property ("Property") which is legally described on schedule 1.3.

1.4. Lease Duration:

1.4.1. The "Commencement Date" of this Lease is December 15, 1995.

1.4.2. The "Termination Date" of this Lease is February 15, 2001.

1.5. The "Basic Monthly Rent: at the commencement of this Lease is Ten Thousand Four Hundred Fifty One Dollars ($10,451) (which shall be adjusted periodically in accordance with schedule 1.5, if attached).

1.6. The "Allowed Use" of the Premises is assemblage and storage of electronic components and related general office use.

1.7. On signing this Lease, Tenant shall pay Landlord Ten Thousand Four Hundred Fifty One Dollars ($10,451) to be applied toward payment of the first month of the term of this Lease ("Advance Rent") and shall deposit Ten Thousand Five Hundred ($10,500) Dollars to be held as the "Security Deposit."

1.8. Tenant's Pro Rata Share of Operating Expenses is forty eight and 30/00 percent (48.30%)

1.9. Notice Address of Tenant:
Vision Newro, Inc.
7659 178th PI NE

REDMOND, WA 98052

1.10. Notice Address of Landlord:
c/o Anderson-Chamberlin, Attn:Spike Anderson
15395 SE 30th Place
Suite 120
Bellevue, WA 98007

1.11. Date. This Lease is dated, for reference purposes, only, as of December 1, 1995.

1.12. Agency Disclosure:

1.12.1. At the time of the signing of this Agreement, Kidder Mathews & Segner represented :Landlord.

1.12.2. Landlord and Tenant confirm that prior oral or written disclosure of agency was provided to them in this transaction.

2. PREMISES. Landlord hereby leases to Tenant and Tenant leases from Landlord for the term, at the rental, and on all of the terms and conditions of this Lease, the Premises.

3. TERM.

3.1. TERM. The term of this Lease is from the Commencement Date until the Termination Date, unless sooner terminated pursuant to any provision hereof.

3.2. DELAY IN COMMENCEMENT. Despite the stated Commencement Date, the Landlord shall not be liable to Tenant and this Lease (including the stated

Termination Date) and the Tenant obligations under this Lease shall be unaffected if for any reason Landlord does not deliver possession of the Premises to Tenant on the Commencement Date, but in such case Tenant shall have no obligation to pay rent until Landlord delivers possession of the Premises to Tenant. If Landlord has not delivered possession to the Premises to Tenant, Tenant may elect by written notice to Landlord cancel this Lease. If the Landlord shall not have delivered possession of the Premises within one (1) year from the Commencement Date, Landlord may by notice in writing to Tenant cancel this Lease. If either party elects to so cancel the Lease, Landlord shall return any money previously deposited by Tenant and the parties shall be discharged from all obligations hereunder. In no event, however, shall Tenant have the right to cancel this Lease because of any delay in delivering possession of the Premises because of any act of God or the elements; shortage or unavailability of necessary materials, supplies, or labor; shortage of or interruption on transportation of facilities; regulations or restriction; or any other cause beyond Landlord's reasonable control. In the event delivery of possession of the Premises is delayed beyond the stated Commencement Date, the stated Commencement Date and the stated Termination Date each shall be extended by the number of days of such delay.

3.3. EARLY POSSESSION. If Tenant occupies the Premises before the Commencement Date of the term, all of Tenant's Lease obligations (including payment of Operating Expenses, but not Basic Monthly Rent) shall become effective immediately although such early possession shall not accelerate the Termination Date of this Lease.

3.4 FIRST OPPORTUNITY TO LEASE. Tenant shall have the first opportunity to lease other space adjacent to its Premises if such space becomes available for lease. In such case, Landlord shall advise Tenant of its availability and the terms on which Landlord would lease such space. Tenant acknowledges that Landlord is negotiating for the lease of the remainder of the building (as well as the Premises following expiration of Tenant's Lease) with Mr. And Mrs. Christopher Starling and such Tenant's first opportunity to lease will apply only if such other lease is not finalized or if such Lease is terminated during the term of Tenant's Lease. On any such notice, Tenant shall have the right to lease such adjacent space (for a term equal to Tenant's unexpired term) at the rent and condition stated in Landlord's notice or upon such other terms as Tenant and Landlord may agree in their individual directions. Tenant shall have thirty (30) days after receipt of such notice to not Lessor that Tenant elects to lease the adjacent space. If Tenant does not exercise its right to lease the adjacent space to a third party on such terms as may be acceptable to Landlord and such other party. Tenant does not have any right of renewal of this Lease.

4. RENT

4.1. Basic Monthly Rent. Tenant shall pay to Landlord as rent for the Premises the Basic Monthly Rent, in advance, on the first day of each on the of the term hereof. Rent for any period during the term hereof which is for less than one (1) month shall be a pro-rata portion of the monthly installment. Rent shall be payable without notice or demand and without deduction, offset, or abatement, in lawful money of the United States of America to Landlord at such address and to such other persons or at such other places as Landlord may designate in writing.

4.2 OPERATING EXPENSES

4.2.1 In addition to the Basic Monthly Rent and commencing on the earlier of Tenant's occupancy or the Commencement Date, Tenant shall pay to Landlord monthly tenant's Pro Rata Share of Operating Expenses of the Property. Periodically Landlord shall submit to Tenant a statement of the anticipated monthly amount of Tenant's Pro Rata Share of Operating Expenses, and tenant shall pay the same and all subsequent monthly payments concurrently with the payment of Basic Monthly Rent or if no Basic Monthly Rent is due and payable on or before the first day of each month, in advance without adjustment or offset. Tenant shall continue to make said monthly payments until notified by Landlord of a change thereof. In the event that a Lender requires Landlord to make monthly or periodic deposits to an account for the payment of Insurance Premiums or Taxes, the amount of such required deposits to an account for the payment of Insurance rather than being due on the date when such Taxes or Insurance Premiums are paid. Each year when available, Landlord shall give Tenant a statement showing the total Operating Expenses and other charges, if any, for the Property actually incurred for the prior calendar year and Tenant's Pro Rata

Share thereof. In the event that the term of this Lease does not begin or end coincident with the calendar year, the statement for such year shall be prorated appropriately. In the event the total of monthly payments which Tenant has made for the prior calendar year shall be less than Tenant's actual Pro Rata Share of Operating Expenses, then Tenant shall pay the difference in a lump sum within thirty (30) days after receipt of such statement from Landlord when the final

determination is made of Tenant's Pro Rata Share of Operating Expenses, even though the Term may have expired or been terminated. Any overpayment made shall be refunded to Tenant or, at Landlord's option, credited towards the next Basic Monthly Rent payments coming due. In the case of the year in which the Lease expires or terminates any overpayment will be refunded. In the event of any adjustment by Landlord of the estimated amount of the Operating Expenses, Tenant shall immediately commence paying the adjusted estimated amount.

4.2.2. DEFINITION of Operating Expenses. "Operating Expenses" shall mean the total costs and expenses paid or incurred by Landlord in connection with the ownership, operation, maintenance and repair of the Property which in accordance with reasonable accounting and management practices consistently applied, including , without limitation (1) Taxes; (2) Insurance Premiums (3) the cost of utilities consumed on the Property if paid for by Landlord; (4) the cost of any governmentally required license, permit, or inspection for or of the Property; (5) personal property taxes on any personal property owned by Landlord and located on the Property and used for the maintenance or operation of the Property; (6) and any other costs and expenses of Property; (7) reasonable property management fees not exceeding three percent (3%) of total rental charges and (8) any other expense designated by this Lease to be an Operating Expense. In the event of the failure of a compressor or other major element of the heating and air conditioning system of the Property (which element is not a consumable or designed and intended to be replaced periodically) requiring replacement rather than maintenance, only fifty percent(50%) of the expense of such replacement shall be included within the meaning of Operating Expenses. Operating Expenses shall be "net" only and for that purpose shall be deemed reduced by the amounts of any insurance reimbursement or other reimbursement received by Landlord in connection with such expenses. The following shall not be Operating Expenses (1) repairs or other W??????? occasioned by insured casualty except for the deductible portion of any insured casualty loss; "(2) leasing commissions; (3) depreciation and amortization; (4) costs of a capital improvement nature; (5) interest on debt or principal payments to a Lender or rental under a ground lease (other than leasehold excise tax); and (6) costs of Landlord's general overhead.

5. SECURITY DEPOSIT. The Security Deposit shall be security for Tenant's full performance of Tenant's lease obligations. If Tenant fails to pay rent or any other charges due from Tenant under this Lease, Landlord may elect to apply the Security Deposit toward the payment of such default. If Landlord applies any portion of the Security Deposit, Tenant shall, on ten (10) days written notice, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to the full amount stated in Section 1; Tenant's failure to do so shall be a default. Landlord may commingle the security Deposit. If Tenant performs all of Tenant's lease obligations, the Security Deposit (or so much as has not been applied by Landlord) shall be returned to Tenant (or, at Landlord's option, to the last assignee, if any, or Tenant's interest under the Lease) within a reasonable time. Landlord may transfer the security deposit to the purchaser of his interest in the event of sale and Tenant shall look solely to such purchaser for return of the deposit.

6. USE.

6.1. Allowed use. The Premises shall be used and occupied only for the Allowed Use and for no other purpose without prior written consent of Landlord, which consent may be withheld or conditioned as Landlord deem appropriate within its sole, unrestricted discretion. The designation of Tenant's Allowed Use shall not be deemed to be an agreement by Landlord to refrain from leasing other property to others for a similar use.

6.2. COMPLIANCE WITH LAW. Tenant shall, at Tenant's expense, comply promptly with all present and future laws and requirements regulating the use of the Premises by Tenant or Tenant's business. Landlord shall, at Landlord's expense, comply promptly with all present and future laws and requirements regulating the physical condition of the building containing the Premises which are not related to the use of the Premises by Tenant or Tenant's business. Tenant and Landlord are not related to the use of the Premises by Tenant or

Tenant's business. Tenant and Landlord agree that requirements arising from or based on the federal Americans With Disabilities Act due to the present of employees or members of the public in Tenant's Premises are to be deemed to be elsewhere in this Lease. Tenant shall not create or allow waste or a nuisance, or unreasonably disturb any other tenant or person.

6.3 INSURANCE CANCELLATION. Despite any other provision of this Lease, no use of the Premises may be made or permitted nor acts done which will adversely affect or increase the cost of any insurance policy maintained by Landlord.

6.4. LANDLORD'S RULES AND REGULATIONS. Tenant shall comply with reasonable regulations made or changed by Landlord shall from time to time which regulations shall not conflict with any express provision of this Lease.

6.5. OTHER TENANTS. Landlord shall not be responsible to Tenant for the acts or, omissions of the other tenant or occupant of the Property.

7. MAINTENANCE, REPAIRS AND ALTERATION.

7.1. LANDLORD'S OBLIGATION. Except for damage caused or allowed by Tenant and its employees or invitees, Landlord shall maintain, at Landlord's expense and not as Operating Expense the structural foundations of the Premises and the exterior roof(s) of the Premises. The term "Common Areas" refers to all areas within the Property which are made available, from time to time, for general use of all tenants and Landlord, which areas shall include, but not necessarily be limited to, parking areas, driveways, sidewalks, landscaped and planted areas, common lobbies and loading docks and the like. The Landlord shall keep or cause to be kept the Common Areas in a neat, clean, and orderly condition, properly lighted and landscaped and planted areas, common lobbies and loading docks and the like. The Landlord shall keep or cause to be kept the Common Areas in a neat, clean, and orderly condition, properly lighted and landscaped and shall repair any damage to the facilities thereof, and all expenses in connection with the common areas shall be Operating Expenses for which Tenant will pay its Pro Rata Share. Operating Expenses for Common Areas general maintenance and repairs, relocation of facilities, resurfacing, painting, striping, re-striping, cleaning snow removal, sweeping and janitorial services, maintenance and repair of sidewalks, curbs and Property signage, landscaping; irrigation, or sprinkling systems, planting and maintenance (other than exterior roof and structural foundations of the Premises) including but not limited to patching, resurfacing and preventative maintenance and painting or renovation of the ???? heating, ventilation and air conditioning system serving more of the Property than just the ???? cost or expenses incurred by reason of any repairs or modifications to the Property for energy or reserves for replacement of existing capital improvements in the Common Areas in amounts as required by Landlord. Landlord may cause any or all of said services to be provided by an independent contractor or contractors. Landlord shall have no such repairs. Landlord shall have no obligation to make any repair, change or improvement of the number of the Premises.

7.2. TENANT'S OBLIGATIONS. Tenant, at Tenant's expense, shall maintain in good condition and appearance all and every part of the Premises (regardless whether the damaged portion of the Premises or the means of repairing the same are directly accessible form the interior of the Premises). Without limiting Tenants duty, Tenant shall so maintain (including repainting when seasonably needed) all interior walls, any heating ventilation and air conditioning system serving Premises, fixtures, walls, ceilings, doors, glass, and skylights located within the agreement to maintain the Premises includes the duty to replace as well as repair. If and as in writing by Landlord, Tenant shall contract, at Tenant's expense, for third party periodic representative maintenance and servicing of heating, air conditioning and ventilating equipment serving the Premises.

7.3. INITIAL CONDITION OF PREMISES. Tenant accepts the Premises in the condition existing when this Lease is signed. Tenant acknowledges that neither Landlord nor the Broker has made nay representation or warranty as to (I) the physical condition of the Premises other than Landlord represents that Landlord is not presently aware of any existing physical condition of the Premises which presently is legally required to be rectified or altered, or (ii) the suitability or zoning improvements or changes to the Premises; provided, Landlord agrees to reimburse Tenant, upon completion of the work, for the expense of the following work to be performed by tenant's contractor under Tenant's supervision:

7.3.1 Construction of a wall between Tenant's Premises and the remainder of the building.

7.3.2. Installation of separate electrical (and gas if already installed) meters for the Premises and separation of electrical wiring and plumbing from the balance of the building.

7.3.3. Servicing of HVAC units as may be necessary so as to be operational on the Commencement Date.

7.3.4. Improve front entrance of Premises to building standard appearance.

7.3.5. Construction of two restrooms in accordance with applicable code requirements.

7.3.6. Install fire sprinkler system as required under applicable building code.

7.3.7. Re-key locks in doors in the portions of the building not included in the premises.

7.3.8. Tenant and Landlord will reasonably cooperate with one another to prepare plans and specifications for the foregoing work and to negotiate acceptable financial arrangements with the contractor who is to perform the work; if Tenant and Landlord are unable to agree on such financial arrangements with the contractor, Landlord may elect to perform such work with a contractor and on terms which are acceptable to Landlord.

7.4. SURRENDER. On the Termination Date of this Lease, or on any sooner termination of this Lease, Tenant shall surrender the Premises to Landlord in good condition and in accordance with Tenant's maintenance obligation and broom clean, ordinary wear and tear excepted. Tenant shall patch, fill and paint any holes resulting from attachment of any of Tenant's trade fixtures, furnishings and equipment. Tenant shall remove any alterations or improvements made by Tenant without the prior written approval of Landlord.

7.5. LANDLORD RIGHTS. If Tenant fails to perform Tenant's maintenance obligations, Landlord may, at its option (but shall not be required to) enter the Premises after ten (10) days prior written notice to Landlord or with no prior written notice in an emergency, and perform Landlord's maintenance obligations and Landlord shall immediately, fully reimburse Tenant for such expense together with interest thereon at the rate of twelve percent (12%) per annum and pay to Landlord an administrative surcharge equal to fifteen percent (15%) of the costs so incurred by Landlord. If Landlord fails to perform Landlord's maintenance obligations hereunder, Tenant may, at its option (but shall not bee required to), after ten (1) days prior written notice to Landlord or with no prior written notice in an emergency, and perform Landlord's maintenance obligations and Landlord shall immediately, fully reimburse Tenant for such expense together with interest thereon at the rate of twelve percent (12%) per annum and pay to Tenant an administrative surcharge equal to fifteen percent (15%) of the costs so incurred by Tenant.

7.6. ALTERATIONS AND ADDITIONS.

7.6.1. Without Landlord's prior written consent, Tenant shall not make any alteration, improvements or additions to the Premises, except for non-permanent changes costing less than Five Thousand Dollars ($5,000) in the aggregate per year. As a condition of consent, additions at the expiration of the term, and to restore the Premises to the prior condition; Landlord may impose such other conditions as are reasonable; provided Tenant shall not be required to remove any of the improvements listed in Section 7.3 for which Landlord is to reimburse Tenant. Tenant shall secure all governmental permits required in connection with any such work. Landlord may, at its sole option, require Tenant, at Tenant's expense, to obtain for Landlord's benefit a surety against any liability for liens arising from such work and to insure completion of the work. In performing any construction on the Premises, Tenant agrees to select a contractor from a list of contractors to be provided by Landlord, so long as such contractor's pricing to Tenant is reasonable and competitive.

7.6.2. Before commencing any work relating to alterations, additions and improvements affecting the Premises (non of which are required or requested by Landlord, nor any obligation of Tenant under this Lease), Tenant shall notify

Landlord in writing of the expected date of commencement thereof. Landlord shall then have the right at any time to maintain on the Premises such notices a s Landlord reasonably deems necessary to protect the Premises and Landlord from any lien. In any event, Tenant shall not permit any lien to be asserted, against the Premises or Property for any charge incurred or alleged to have been incurred by Tenant, and Tenant shall indemnify, defend Landlord against, and hold Landlord harmless from any and all liability, costs, damages therefrom.

7.6.3. Unless Landlord requires removal, as provided elsewhere in this Lease, all alterations, improvements or additions which may be made on the Premises shall become the property of Landlord and remain upon and be surrendered with the Premises at the expiration of the affixed to the Premises so that it cannot be removed without material damage to the Premises, shall

remain the property of Tenant and may be removed by Tenant prior to the end of the term of the Lease and subject to Tenant's obligations to maintain the Premises.

8. HAZARDOUS SUBSTANCES.

8.1 As used in the Lease, the term "Hazardous Substance" means any substance or material, the storage, use or disposal of which is or becomes regulated under any law, now or hereafter in effect.

8.2. Landlord warrants to Tenant that Landlord has not released or deposited on the Premises or Property Common Areas any Hazardous Substance, and Landlord has no knowledge of the presence of any hazardous substance on the Premises.

8.3. Without Landlord's prior written consent, Tenant shall not receive, store or otherwise allow any Hazardous Substance on the Premises or Property. In the event of any release or presence of any Hazardous Substances on or about the Premises or Property occurring on or after the Commencement Date of this Lease, Tenant agrees to immediately, fully and completely remove (and to dispose of such in accordance with applicable law) all of such Hazardous Substance would not require remediation under the provisions of law. Tenant further agrees to defend, indemnify, and hold harmless Landlord, its employees, agents and contractors and Lender from and against any and all losses, claims, liabilities, damages, demands, fines, costs, and expenses (including reasonable attorneys' fees) arising out of or resulting from any release or presence of any Hazardous Substances on or about the Premises; the provisions of this sentence shall survive (and be enforceable thereafter) the termination or expiration of this Lease and the surrender of the Premises by Tenant. If Tenant becomes aware of the release or presence on the Premises or Property of any Hazardous Substance, Tenant shall immediately advise Landlord of such release or presence, and Tenant further shall provide Landlord with copies of any reports, studies, recommendations or requirements received by Tenant from any third person including a governmental agency.

9. INSURANCE; INDEMNITY.

9.1. PAYMENT OF PREMIUM. "Insurance Premiums" are the actual cost of the insurance applicable to improvements on the Property and required to be carried by Landlord by this Lease and include, but are not limited to , requirements of a Lender. The cost of Insurance Premiums shall be included as a portion of the Operating Expenses of which Tenant shall pay its Pro Rata Share of Operating Expenses.

9.2. LIABILITY INSURANCE CARRIED BY TENANT. Tenant shall obtain and keep in force during the term of this Lease a commercial (comprehensive) liability insurance policy protecting Tenant, Landlord and any Lender(s) whose names have been provided to Tenant in writing (as additional insureds) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. For the purposes of this Lease, a "Lender" is a mortgagee under a mortgage or a beneficiary under a deed of trust granted by Landlord or Landlord's predecessor and which is a lien on the Premises. Such insurance shall be on an occurrence basis providing single Managers or Landlords of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" endorsement for damage caused by heat, smoke or fumes from a hostile fire. The policy shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Tenant's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by

Tenant shall not, however, limit the liability of Tenant nor relieve Tenant of any obligation hereunder all insurance to be carried by Tenant shall not, however, limit the liability of Tenant nor relieve Tenant of any obligation hereunder. All insurance carried by Landlord, whose insurance shall be considered excess insurance only.

9.3. PROPERTY INSURANCE - BUILDING, IMPROVEMENTS AND RENTAL VALUE.

9.3.1. BUILDING AND IMPROVEMENTS. Landlord shall obtain and keep in force during the term of this Lease a policy or policies in the name of Landlord, with loss payable to Landlord and to any Lender(s), insuring against loss or damage to the Property with such deductible amount as is selected by Landlord. Such insurance shall be for full replacement cost, as the same shall exist from time to time, or the amount required by any Lender(s), but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved,

such latter amount is less than full replacement cost. If the coverage is available and commercially reasonable, Landlord's policy or policies may insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake), including coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Premises required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered loss. Such policies may also contain an agreed valuation provision in lieu of any co-insurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor selected by the insurer.

9.3.2. RENTAL VALUE. Landlord shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Landlord, with loss payable to Landlord and any Lender(s), insuring the loss of the full rental and other charges (including Operating Expenses) payable by all tenants of the Premises to Landlord for one year. Said insurance may provide that in coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any co-insurance clause, and the amount of coverage shall be adjusted annually to reflect the projected payments payable by Tenant for the next 12-month period.

9.3.3. INCREASES CAUSED BY TENANT. Tenant shall pay for any increase in the premiums charged to Landlord for the Property or Common Areas if said increase is caused by Tenant's acts, omissions, use or occupancy of the Premises.

9.4. TENANT'S PROPERTY INSURANCE. Tenant at its own cost shall maintain insurance coverage on all of Tenant's personal property, trade fixtures and Tenant-owned alterations and improvements in the Premises similar in coverage to that required by this Lease to be carried by Landlord. Such insurance shall be full replacement cost coverage with a deductible not to exceed Five Thousand Dollars ($5,000) per occurrence. The proceeds from any such insurance shall be used by Tenant for the replacement of personal property, trade fixtures and the restoration of any Tenant owned improvements. Upon request from Landlord, Tenant shall provide Landlord with written evidence that such insurance is in force.

9.5. INSURANCE POLICIES. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V or such other rating as may be required by a Lender, as set forth in the most current issue of "Best's Insurance policies maintained by Landlord. Tenant shall cause to be delivered to Landlord, within seven (7) days after the earlier of the Early Possession Date or the Commencement Date, certified copies of, or certificates evidencing the existence and amounts of , the insurance required of Tenant by this Lease. No such policy shall be cancelable or subject to modification except after thirty (30) days' prior written notice to Landlord. At least thirty (30) days prior to the expiration policies, Tenant shall furnish Landlord with evidence or renewals or "insurance binders" evidencing renewal thereof, or Landlord may obtain such insurance and charge the cost thereof to Tenant, which amount shall be payable by Tenant to Landlord upon demand.

9.6. WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Tenant and Landlord each hereby release and relieve the other, and waive their

entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under this Lease to the actual extent of the insurance actually maintained. Landlord and Tenant agree to have their respective insurance may have against Landlord or Tenant, as the case may be, so long as the insurance is not invalidated thereby.

9.7. INDEMNITY.

9.7.1. BY TENANT. Except to the extent of Landlord's comparative negligence or breach of an express provision of this Lease, Tenant shall indemnify, protect, defend and hold harmless the Landlord and its Lenders from and against claims, loss of rents and damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants' fees, expenses and liabilities arising out of, involving, or in connection with, the occupancy of the Premises or Property by Tenant, the conduct of Tenant's business, any act, omission or neglect of Tenant, its agents, contractors, employees or invitees, and out of any Default or Brach by Tenant in the performance in a timely manner of any obligation on Tenant's part to be performed under this Lease. The

foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Landlord) litigated or reduced to judgment. In case any action or proceeding be brought against Landlord by reason of any of the foregoing matters, Tenant upon notice from Landlord shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord and Landlord shall cooperate with Tenant in such defense. Landlord need not have first paid any such claim in order to be so indemnified. In the event of concurrent negligence of Landlord and Tenant, resulting in injury or damage to persons or property and which relates to the construction, alterations, repair, addition to, subtraction from, improvement, to or maintenance of the Premises, the indemnifying party's subtraction from, improvement to or maintenance of the Premises, the indemnifying party's obligation to indemnify the other party as set forth in the Section shall be limited to the extent of the indemnifying party's negligence, and that of its agents, employees, subleases, invitees, licensees or contractors.

9.7.2. BY LANDLORD. Except to the extent of Tenant's comparative negligence or breach of an express provision of this Lease, Landlord shall indemnify, protect, defend and hold harmless the Tenant from and against all claims, loss of rents and damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants' fees, expenses and liabilities arising out of, involving, or in connection with, the wrongful acts of act, omission or neglect of Landlord, and out of any Default or Breach by Landlord in the performance in a timely manner of any obligation on Landlord's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Tenant) litigated or reduced to judgment. In case any action or proceeding be brought against Tenant by reason, of any of the foregoing matters, Landlord upon notice from Tenant shall defend the same at Landlord's expense by counsel reasonably satisfactory to Tenant and Tenant shall cooperate with Landlord in such defense. Tenant need not have first paid any such claim in order to be so indemnified. In the event of concurrent negligence of Tenant and Landlord resulting in injury or damage to persons or property and which relates to the construction, alterations, repair, addition to, subtraction from, improvement to or maintenance of the Premises, the indemnifying party's obligation to indemnify the other party as set forth in this Section shall be limited to the extent of the indemnifying party's negligence, and that of its agents, employees, subleases, invitees, licensees or contractors.

9.8. EXEMPTION OF LANDLORD from Liability. Landlord shall. not be liable for injury or damage to the person or property of Tenant, Tenant's employees, contractors, invitees, customers, or any other person in or about the Premises or Property, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Notwithstanding Landlord's negligence or breach of this Lease, Landlord shall under no circumstances be liable for any loss of income or profit of Tenant's

business or any other consequential damage.

10. Damage OR Destruction.

10.1. PARTIAL DAMAGE - INSURED. If the Premises or Property are Partially Damaged and such damage was caused by a casualty covered under an insurance policy required to be maintained by Tenant or Landlord pursuant to this Lease, Landlord shall. repair such damage as soon as reasonably possible, and this Lease shall continue in full force and effect. If, however, if the insurance proceeds actually available to Landlord (after deduction of any proceeds required by a Lender to be applied to reduction of indebtedness) are not sufficient to effect such repair, Landlord shall not be obligated to make such repairs unless Tenant elects, without obligation to do so, to contribute, without right of reimbursement, the required amount. In the event that Landlord is not obligated and does not voluntarily agree to repair such damage, either Tenant or Landlord may declare this Lease terminated by thirty (30) days written notice to the other party.

10.2. DAMAGE - UNINSURED. In the event the Premises are damaged or destroyed by a casualty which is not covered under an insurance policy required to be maintained by Tenant or Landlord, the Landlord may elect to repair such damage as soon as reasonably possible, and this Lease shall continue in full force and effect. If Landlord does not so elect within sixty (60) days after the occurrence of the casualty to repair, either Tenant or Landlord may declare this Lease terminated by ten (10) days written notice to the other party; provided Tenant may avoid termination of this Lease if Tenant voluntarily agrees to pay, without right of reimbursement, all of the costs of such repairs by Landlord.

10.3. TOTAL DESTRUCTION. If the Premises are Totally Destroyed by a casualty covered under an insurance policy required to be maintained by Tenant or Landlord pursuant to this Lease, this Lease shall automatically terminate as of the date of such total destruction.

10.4. DAMAGE NEAR END OF TERM. If the premises are Partially Damaged during the last two (2) years of the term of this Lease, Landlord may, at Landlord's option, cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Tenant of Landlord's election to do so within thirty (30) days after Landlord receives notice of occurrence of such damage; provided Landlord shall continue to have all rights to receive the proceeds of any insurance policy required by the Lease to be maintained by Tenant.

10.5. ABATEMENT OF RENT. If the Premises are Partially Damaged, the rent payable while such damage, repair or restoration continues shall be abated in proportion to the degree to which Tenant's reasonable use of the Premises is substantially impaired. Except for abatement of rent, if any, Tenant shall have no claim against Landlord for any damage suffered , by reason of any such damage, destruction, repair or restoration.

10.6 DEFINITIONS. For purposes of this Lease, the term Partially Damaged shall be deemed to mean damage to the Premises or Property (excluding any damage to Tenant owned property or alterations) which is reasonably estimated to cost to repair less than fifty percent (50%) and Totally Destroyed shall be deemed to mean damage to the Premises or Property (excluding any damage to Tenant owned property or alterations) which is reasonably estimated to cost to repair more than fifty percent (50%) of the reasonable fair market value of the improvements constituting the Premises or Property (but not the land) calculated immediately prior to the occurrence of the damage. Cost shall include the cost to rebuild all of the damaged improvements owned by Landlord including demolition, debris removal, requirements of applicable building codes and other laws, mitigation requirements and without regard for depreciation.

11. TAXES.

11.1. TAXES. Landlord shall pay all Taxes applicable to the Property, the amount of which shall be included In calculating the total of Operating Expenses. If any Taxes cover any period of the time prior to or after expiration of the term hereof, Tenant's share of such taxes shall be equitably prorated to cover only the period of time within which this Lease shall be in effect. As used herein, the term Taxes shall include any form of required payment, assessment, license fee, tax on rent, levy, penalty, or tax (other than Landlord's net income tax and inheritance or estate taxes) imposed by any authority having the direct or indirect power to tax any legal or equitable

interest of Landlord in the Property or Landlord's right to rent or other income therefrom. If Landlord deems such action to be warranted, the cost of contesting any Taxes or assessment affecting the Property shall be an Operating Expense.

11.2. PERSONAL PROPERTY TAXES. Tenant shall pay prior to delinquency all taxes assessed against and levied on any leasehold improvements, fixtures, furnishings, equipment and other property of Tenant. Tenant shall cause such Tenant property to be assessed separately from Landlord's Property or reimburse Landlord for the taxes attributable to Tenant within ten (10) days after receipt of a written statement from Landlord setting forth the taxes applicable to Tenant's property.

12. TENANT'S COMMON AREA RIGHTS AND OBLIGATIONS. During the Lease term, Tenant has a non-exclusive license to use the Common Areas as they from time to time exist, subject to the rights reserved by Landlord. Storage, either permanent or temporary, of any materials, supplies or equipment in the Common Areas is prohibited. Landlord shall have the right to designate one or more areas for parking of employees of Tenant and other tenants and to establish reasonable parking regulations, weight limits and access routes to be used by trucks. When requested by Landlord, Tenant shall. furnish a list of the license numbers of its motor vehicles and of Its employees'. Tenant shall not at any time park or permit the paring of motor vehicles, belonging to it or to others, so as to interfere with the pedestrian sidewalks, roadways and loading areas, or in any portion of the parking areas not designated by Landlord for such use by Tenant. Tenant shall repair, at its cost, all deterioration of or damage to the Common

Areas occasioned by its lack of ordinary care or violation of Landlord's rules or instructions.

13. UTILITIES. Tenant shall pay for all water, gas, drainage service, sewer service, garbage service, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Tenant, Tenant shall pay its Pro Rata Share of such utilities as Operating Expenses. If the Landlord shall determine, the exercise of Landlord's good faith review, that the Tenant's use of utilities is in excess of that normally used by a tenant occupying similar space, then Tenant shall pay Landlord upon demand as additional rent, the cost of such excess utility usage in addition to any other rent or charge due from Tenant under this Lease. In no event shall Landlord be liable for an interruption or failure in the supply of any such utilities to the Premises.

14. ASSIGNMENT AND SUBLETTING.

14.1. Landlord's Consent Required. Tenant shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in this lease or the Premises without Landlord's prior written consent, which consent may be conditioned, in addition to any other reasonable conditions, on a written assumption by the assignee or sublessee of the obligations of Tenant, a written guarantee of payment and performance by Tenant and a consent or reaffirmation of any guarantor of Tenant. Any purported assignment, transfer, mortgage, encumbrance, or subletting without consent shall be void and constitute a breach of this Lease. In the event that Tenant is not a natural person, then any transfer (or the aggregate of a series of transfers) of thirty percent (30%) or more of the beneficial ownership of Tenant shall be deemed a prohibited assignment; in the event of the sale of one hundred percent (100%) of the beneficial ownership of Tenant, Landlord agrees to not unreasonably withhold its consent to such assignment provided Landlord is provided with reasonably acceptable information regarding the creditworthiness of the assignee, the assignee assumes all of Tenant's obligations under this Lease and Tenant and Tenant's guarantor remain fully obligated to pay or perform all of Tenant's obligations under this Lease. No option to renew or extend, if any, may be assigned by Tenant and no assignee or subtenant shall have any right to exercise any such option. The acceptance of rent by Landlord from a person other than Tenant shall not be deemed to be a waiver by Landlord of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting.

14.2. NO RELEASE OF TENANT. Regardless of Landlord's consent, no subletting or assignment shall release Tenant's primary obligation to pay or perform any obligation under this Lease.

14.3. Assignment Fee. In the event that Landlord shall consent to a

sublease or assignment under Article 14.1, Tenant agrees to reimburse Landlord for the reasonable out-of pocket expenses incurred by Landlord in connection with such consent.

14.4. Assignment by Landlord. Landlord shall be permitted freely to assign all of its rights and obligations hereunder. In the event of a sale or other transfer of the Premises, whether by foreclosure or otherwise, the Tenant agrees to attorn to the new owner and to recognize such owner as the Landlord under this Lease and Tenant shall thereafter look solely to such transferee for performance of this Lease

15. DEFAULTS; REMEDIES.

15.1. Defaults. The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant-

15.1.1. The vacation or abandonment of the Premises by Tenant.

15.1.2. The failure by Tenant to make any payment required to be made by Tenant hereunder, as and when due where such failure shall continue for a period of three (3) days after written notice thereof from Landlord to Tenant.

15.1.3. The failure by Tenant to observe or perform any of the provisions of this Lease (other than the payment of money) to be observed or performed by Tenant where such failure shall continue for a period of ten (10) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in

default if Tenant commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

15.1.4. The making by Tenant or any guarantor of Tenant of any general assignment, or general assignment for the benefit of creditors; (ii) the filing by or against Tenant or any guarantor of Tenant of a petition to have Tenant adjudged a bankrupt or petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days; (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within ten (10) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within ten (10) days

15.2 Remedies in Default. Upon the occurrence of a Default by Tenant, Landlord, without notice to Tenant (except where expressly ;provided for in this Lease or by applicable law) may do any one or more of the following:

15.2.1 Elect to terminate this Lease and the tenancy created hereby by giving notice of such election to Tenant, and reenter the Premises, without the necessity of legal proceedings, and remove Tenant and all other persons and property from the Premises, and may store such property in a public warehouse or elsewhere at the cost of and for the account of Tenant without resort to legal process and without Landlord being deemed guilty of trespass or becoming liable for any loss or damage occasioned thereby; and

15.2.2 Exercise any other legal or equitable right or remedy which it may have.

15.3 Damages. If this Lease is terminated by Landlord pursuant to this section, Tenant nevertheless shall remain liable for (a) an rents and damages which may be due or sustained prior to such termination, all reasonable costs, Ls and expenses including, but not limited to, reasonable attorneys' fees, costs and expenses incurred by Landlord in pursuit or its remedies hereunder, or in renting the Premises to others from time to time until the original Termination Date of this Lease (all such rents, damages, costs, fees and expenses being referred to herein as "Termination Damages"), and (b) additional damages ("Post-Termination Damages"), which Post-Termination Damages, at the election of Landlord, shall be either:

15.3.1. an amount equal to the rents which, but for termination of this Lease, would have become due during the remainder of the Term, less the

amount of rents, If any, which Landlord shall receive during such period from others to whom the Premises may be rented, in which case such Post-Termination Damages shall be computed and payable in monthly installments, in advance, on the first day of each calendar month following termination of the Lease and continuing until the date on which the Term would have expired but for such termination, and it or action brought to collect any such Post-Termination Damages for any month shall not in any manner prejudice the right of Landlord to collect any Post-Termination Damages for any subsequent month by a similar proceeding; or

15.3.2. an amount equal to the present worth (as of the date of such termination) of rents which, but for termination of this Lease, would have become due during the remainder of the Term, less the fair rental value of the Premises, as determined by an independent real estate appraiser named by Landlord, in which case such Post-Termination Damages shall be payable to Landlord in one lump sum on demand and shall bear interest at the Default Rate until paid. For purposes of this section, "present worth" shall be computed by discounting such amount to present worth at a discount rate equal to one percentage point above the discount rate then in effect at the Federal Reserve Bank nearest to the Premises; provided that Tenant may avoid the application of this section so long as Tenant voluntarily agrees to pa and, in fact, does pay all sums due to date under the immediately preceding section within forty-five (45) days of receipt of notice of Landlord's declaration of the termination of this Lease and Tenant continues thereafter to pay such amounts monthly until the Termination Date.

15.4. Miscellaneous. If Landlord elects to terminate this Lease following the default of Tenant, Landlord may relet the Premises or any part thereof, alone or together with other premises, for such term or terms (which may be greater or less than the period which otherwise would have constituted the balance of the Term) and on such terms and conditions (which may include

concessions or free rent, alterations of the Premises and payment of brokers) as Landlord, in its sole in the total of Landlord's discretion, may determine, and the costs thereof shall be included Termination Damages which shall be paid by Tenant. Nothing contained in this Lease shall limit or prejudice the right of Landlord to prove for and obtain, in proceedings for the termination of this Lease by reason of bankruptcy or insolvency, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amount of the loss or damages referred to above. The failure or refusal of Landlord to relet the Premises or any part or parts thereof shall not release or affect Tenant's liability for damages.

15.5. Default by Landlord. Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event sooner than thirty (30) days after written notice by Tenant to Landlord and any Lender whose name and writing, specifying wherein Landlord has failed to perform such obligation; provided, however, that the nature of the Landlord's obligation is such that more than (30) days are required for performance, then Landlord shall not be in default if Landlord commences performances within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

15.6. Late Charges and Interest. Tenant hereby acknowledges that late payment by Tenant to Landlord of any sum due tinder this Lease will cause Landlord to incur costs not contemplated by this Lease and the amount of which is difficult to predict in advance. Accordingly, if any sum due from Tenant shall not be received by Landlord within ten (10) days after that said amount is due, then Tenant shall pay to Landlord a late charge of five percent (5%) of such overdue amount. In addition, any amount due to Landlord not paid when due shall bear interest at twelve percent (12%) per annum ("Default Rate") from the due date. Payment of such interest or late charge shall not excuse or cure any default by Tenant under this Lease. In the event that a check from Tenant is returned unpaid by Tenant's bank, Tenant shall pay an additional returned check charge of twenty five dollars ($25) which Tenant agrees is reasonable and which is in addition to a late charge and interest charges if otherwise applicable.

15.7 Cure by Landlord. Landlord, at any time after Tenant commits a default, may cure the default at Tenant's cost. If Landlord at any time pays any sum or does any act that requires the payment of any sum, repayment of the sum paid by Landlord shall be due immediately from Tenant together with interest at

the Default Rate.

15.8. Condemnation. If all of the Premises or any portion of the Premises which is reasonably necessary for the reasonably convenient use of the Premises are taken under the power of eminent domain, or sold by Landlord under the threat of the exercise of said power (all of which is in referred to in this Lease as "condemnation") or if more than twenty-five percent (25%) of the floor area of all buildings constituting the Property, or more than fifty percent (50%) of the parking areas on the Property is taken by condemnation, either Landlord or Tenant may terminate this Lease as of the date the condemning authority takes possession by notice in writing of such election within twenty (20) days after Landlord shall have notified tenant of the taking, or, in the absence of such notice, then within twenty (20) days after the condemning authority shall have taken possession; provided Landlord may avoid termination of the Lease by Tenant by providing, within a reasonable time, a substantially similar replacement for the facilities so taken. If this Lease is not terminated by either Landlord or Tenant then it shall remain in full force and effect as to the portion of the Premises remaining, provided the Basic, Monthly Rent shall be reduced by the proportion to the floor area of the Premises taken by condemnation bears to the total floor area of the Premises. All awards for the taking of any part of the Premises or any payment made under the threat of the exercise of power of eminent domain shall be the property of Landlord, whether made as compensation for diminution of value of the leasehold or for the taking of the fee or as severance damages; provided, however, that Tenant shall be entitled to any separately made award for loss of or damage to Tenant's trade fixtures and removable personal property.

16. General Provisions

16.1. Reasonableness of Consent. Whenever the consent of Landlord or Tenant is required by the terms of this Lease, such consent shall not be unreasonably withheld or delayed although it may be subject to reasonable conditions.

16.2. Payments Are Rent. All payments due to Landlord from Tenant shall be deemed to be rent due under this Lease.

16.3. ESTOPPEL CERTIFICATE.

16.3.1. Tenant shall, at any time, on not less than ten (10) days prior written notice from Landlord, sign and deliver to Landlord a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent, security deposit, and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, my uncured defaults on tile part of Landlord or Tenant under this lease, or specifying such defaults, if any, which are claimed, and agreeing to give reasonable written notice to a Lender of any future default. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises

16.3.2. Tenant's failure to deliver such statement within such time period shall be conclusive upon Tenant that (i) this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) there are no uncured defaults in Landlord's performance, and (iii) not more than one (1) month's rent has been paid in advance.

16.3.3. If Landlord desires to sell, finance or refinance the Property, or any part thereof, Tenant hereby agrees to deliver to any Lender designated by Landlord such financial statements of Tenant as may he reasonably required by such Lender. Such statements shall include the past three (3) years financial statements of Tenant. All such financial statements shall be received by Landlord in confidence and shall be used only for the purposes herein set forth.

16.4. Landlord's Interest. The term "Landlord" as used herein shall mean only the owner or owners at the time in question of the fee title, vendee's interest under a real estate contract, or a tenant's interest in a ground lease of the Premises. In the event of any transfer of such title or interest, Landlord herein named (and in case of any subsequent transfers the then grantor) shall be relieved from and after the date of such transfer of all liability as respects Landlord's obligations thereafter to be performed, provided that any funds in the hands of Landlord or the then grantor at the time of such transfer, in which Tenant has an interest, shall be delivered to the grantee. The

obligations contained in this Lease to be performed by Landlord shall be binding upon Landlord's successors and assigns, only during their respective periods of ownership.

16.5. Tenant Signage. At Tenant's own expense, Tenant may place one or more signs on the Property so long as (1) Tenant has obtained Landlord's prior written consent for the specific sign proposed by Tenant, (ii) such sign(s) conform to all applicable governmental rules and regulations, Tenant maintains such sign is good condition and appearance and (1v) at the termination of this Lease, Tenant shall remove alf such signs and repair any damage caused by such sign or its removal at Tenant's sole expense.

16.6. Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

16.7. Time of Essence. Time is of the essence.

16.8. Captions. Article and paragraph captions are for convenience only are not a part of this Lease.

16.9. Incorporation of Prior Agreement; Amendments. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification.

16.10. Waiver. No waiver by 1andlord of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Tenant of the same or any other provision. Landlord's consent to or approval of any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant. The acceptance of rent hereunder by Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent.

16.11. RECORDING. Tenant shall not record this Lease or allow the filing of a UCC financing statement containing the legal description of the Property without Landlord's prior written consent, and such recordation or filing shall, at the option of Landlord, constitute a noncurable default of Tenant hereunder.

16.12. HOLDING OVER. If Tenant remains in possession of the premises or any part thereof after the expiration of the term hereof without the express written consent of Landlord, such occupancy shall be a tenancy from month to month at a rental equal to one hundred twenty-five percent (125%) of the Basic Monthly Rent due for the last month of the Lease term plus all other charges payable hereunder, and upon the terms hereof applicable to a month to month tenancy.

16.13. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive, but shall wherever possible, be cumulative with all other remedies at law or in equity.

16.14. Covenants and Conditions. Each provision of this Lease performable by Tenant shall be deemed both a covenant and a condition.

16.15. Binding Effect; Choice of Law; Proration. Subject to any provisions hereof restricting assignment or subletting by Tenant or as may be expressly provided in this Lease, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the state where the Premises are located.

16.16. Subordination.

16.16.1. This Lease, at Landlord's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation for security now or hereafter placed upon the real property of which the Premises are a part and to any and all advances made on the security thereof and to all renewals, notifications, consolidations, replacements and extensions thereof If any Lender or ground lessor shall elect to have this Lease prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such mortgage, deed of trust, or ground lease, regardless whether this Lease is dated prior or subsequent to such

mortgage, deed of trust or ground lease, or the late of recording thereof.

16.16.2. Provided that the mortgagee or beneficiary, as the case may be, shall agree to recognize this Lease in the event of foreclosure if Tenant is not in default at such time subject to such provisions relating to the disposition or application of insurance or condemnation proceeds as may be contained in such mortgagee or beneficiary's loan documents, Tenant agrees to execute any documents required to effectuate such subordination or to make this Lease prior to the lien of any mortgage, deed of trust or ground lease, as the case may be, and failing to do so within ten (10) days after written demand, does hereby make, constitute and irrevocably appoint Landlord is Tenant's attorney-in-fact and in Tenant's name, place and stead, to do so.

16.17. ATTORNEYS Fees. If Tenant or Landlord brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorneys fees to be paid by the losing party as fixed by the court.

16.18. LANDLORD'S ACCESS. Landlord and Landlord's agents shall have the right to enter accompanied by the Tenant's representative except in the case of an emergency) the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers or Lenders, and making such alterations, repairs, improvements or additions to the premises or to the building of which they are a part as Landlord may deem necessary or desirable. landlord may at any time place on or about the Premises signs advertising the availability for sale of the Property or a portion thereof, and, during the last one hundred twenty (120) days of the term of this Lease, Landlord may place signs on the Premises advertising the availability for lease of the premises so long as such signs do not unreasonably obscure Tenant's existing signs identifying its business.

16.19. AUCTIONS. Tenant shall not advertise or conduct any auction or going out of business ale in the Premises.

16.20. CORPORATE AUTHORITY. If Tenant is a legal entity, each individual executing this ease on behalf of such entity represents and warrants that he or she is duly authorized to execute ad deliver this Lease on behalf of such entity and that this Lease is binding upon such entity in accordance with its terms.

16.21. LANDLORD'S LIABILITY. Any claim by Tenant against Landlord shall be limited to the Landlord's interest in the Property, and Tenant expressly waives any and all rights to proceed against any other assets of Landlord or any owner of Landlord.

16.22. NOTICES. Wherever under this Lease provision is made for any demand, notice or declaration of any kind, or where it is deemed desirable or necessary by either party to give or serve any such notice, demand or declaration to the other party, it shall be in writing and served either personally or sent by United States mail, postage prepaid, addressed to the address stated at the beginning of this Lease or such subsequent address as may have been specified for such purpose in written notice given to the other party.

16.23. CONFIRMATION OF TERMINATION OF PREDECESSOR LEASE. The Premises (and other property) previously have been lease by Landlord to a now bankrupt company, Virtual Vision, from which Tenant has obtained some of its assets. Tenant and Landlord confirm and warrant to each her that the prior lease has been fully terminated, and that Tenant has no claim or right of use of any portion of Landlord's Property except the Premises as defined in this Lease and in accordance 1h this Lease.

16.24. SPECIAL ARTICLES. The following Schedules are attached and are a part of this Lease:

Guaranty of Lease
Schedule 1.3, Floor Plan and Legal Description
Schedule 1.5, Increases of Basic Monthly Rent in Accordance with Changes in Consumer Price Index

8.4. Guarantor has requested that Landlord agree to the terms of this Lease and Guaranty for the benefit of Guarantor.

The individual executing this Guaranty of Lease on behalf of Telxon Corporation personally represents and warrants that he or she is duly authorized to execute

and deliver this Guarantee of Lease on behalf of Telxon Corporation and that this Guaranty of Lease 1's binding upon such entity in accordance with its terms.

Guarantor:

Telxon Corporation,
a Delaware Corporation

BY
Its

In the event Guarantor has paid to Landlord any sum due hereunder, Guarantor shall have and be entitled to exercise all the rights of the Tenant under the Lease. To the extent that Guarantor brings the obligations of Tenant current, and maintains those obligations, Guarantor has the right to use and occupy the Premises, by sublease, assignment, or otherwise, without the necessity of obtaining consent from the Landlord but subject to the other terms and conditions of the Lease.

GUARANTY OF LEASE

1. To induce and as consideration for Redson Building Partnership, a Washington general partnership, ("Landlord") to enter into the foregoing lease ("Lease") of which this Guaranty is an exhibit, the undersigned (who is referred to herein as "Guarantor") irrevocably guarantees to Landlord, its successors and assigns, the full and due performance by the Tenant, and by its successors and assigns, of all the terms, obligations, covenants and agreements under the Lease, and each of them, on the part of Tenant, its successors, assigns and subtenants to be observed or performed, and, without limiting the foregoing, the full and punctual payment by Tenant and its successors, assigns and subtenants of all rentals, additional rentals and other sums of money as and when they become due and payable as provided in the Lease throughout the Lease, including any extension or renewal of the Lease. The Lease is incorporated herein by this reference as though set out in full in the Guaranty.

2. The Guarantor waives notice of acceptance of this Guaranty and agrees that this Guaranty shall be a continuing guaranty.

3. Notice of any and all defaults on the part of Tenant, and any successor, assignee or subtenant of Tenant or of the foregoing, is waived, and consent is given to all extensions of time, waivers or indulgences of any kind, that Landlord, its successors or assigns, may grant to Tenant, and any successors, assignee or subtenants of Tenant or of the foregoing with reference to the performance by Tenant or any successor, assignee or subtenant of Tenant or of the foregoing, of any of the terms, obligations, covenants or agreements in or under the Lease. Full consent is also given by the Guarantor to any and all changes, modifications or amendments in, of or to any such terms, obligations, covenants or agreements as well as to conditions of, in or under the Lease that may be made by agreement between Landlord or its successors or assigns and Tenant or any successor, assignee or subtenant of Tenant or of the foregoing, or otherwise; and the Guarantor waives any and all requirements whatsoever on the part of Landlord or its successors or assigns first to exhaust or pursue its, or their, remedies against Tenant, its successors or assigns, before Landlord or its successors or assigns shall have the right to proceed directly, and recover against, the Guarantor.

4. The Guarantor, without limiting any of the provisions of this Guaranty, also waives notice of any and all changes, modifications or amendments in, of or to the Lease, that may be agreed upon between Landlord or Landlord's successors or assigns and Tenant, or successors, assigns or subtenants of Tenant's or of the foregoing, or that may be permitted or suffered in connection with lease, or the performance thereof, as well as notice of any waivers, indulgences or extensions granted or suffered by Landlord or its successors or assigns. The Guarantor further agrees that, notwithstanding any waivers, extensions or indulgences granted or suffered by Landlord, or successors or assigns, and notwithstanding any changes, amendments or modifications in, of or to the Lease, by agreement or otherwise, the Guarantor shall be and remain, and absolutely and fully liable to

Landlord and its successors and assigns for the full and punctual payment of all rentals, additional rentals and other payments to be made, and for the full and due performance of all the other terms, obligations, covenants, agreements and conditions of, in or under the lease, and in any change, amendment or modification thereof, by Tenant and its successors and assigns, without any notice whatsoever.

5. Without limiting any of the provisions of this Guaranty, the Guarantor further agrees that this Guaranty, and the obligations of the Guarantor under it, shall in no wise be terminated, affected or impaired by reason of the assertion by Landlord, its successors or assigns against Tenant, its successors or assigns, of any rights or remedies reserved to the Landlord pursuant to or by virtue of the provisions of the Lease or any change, amendment or modification of the Lease.

6. The references in this Guaranty to Tenant's successors and assigns shall not be deemed a waiver by Landlord, its successors or assigns, of any prohibition or restriction in the Lease relating to the assignment of the Lease.

7. This Guaranty is executed by the Guarantor to induce Landlord to execute and deliver the Lease well knowing that Landlord would not do so without this Guaranty.

8. Guarantor represents to Landlord that all of the following statements are factually true and accurate:

8.1. Guarantor is financially interested in the operation of a business which is expected to be operated at the leased Premises and seeks financial benefit from Landlord's agreement to lease the Premises to Tenant on the basis of this Lease and Guarantee.

8.2. Guarantor has read and understands all of the Lease and this Guarantee, and understands that this Guarantee is legally binding on Guarantor regardless of any future events.

8.3. Guarantor knows that its obligations and liability on this Guarantee will not terminate when or if Guarantor's involvement, financial or otherwise, in the leased Premises may terminate; instead Guarantor will remain liable to Landlord even though the leased Premises are leased, assigned or subleased to someone else.

Subject to the 36 month time limit set forth in #1 above.

Schedule 1.3

Legal description of the Property
PARCEL A:

That portion of Lot 10, Redmond Science Center, according to the plat thereof recorded in Volume 124 of Plats, pages 70 and 71, records of King County, Washington, lying Northerly of the following described line:

Beginning of the Southwest corner of said Lot 10;

Thence South 98'33'31" East along the South line of said Lot 10, a distance of 30.39 feet; Thence North 60137'49" East, 78.10 feet;

Thence North 29'36'04" West, 16.40 feet;

Thence North 60'41'38" East, 57.06 feet;

thence North 70'58'16" East, 28.37 feet;

Thence North 60016'00" East, 65.42 feet to the Easterly line of said Lot 10 and the terminus of this described line);

(also known as revised Lot 4 in lot line revision City of Redmond No. LLR 93-004, recorded under King County Recording No. 9311309017.)

PARCEL B:

Easements pursuant to a cross access easement agreement dated February 24, 1994, under Recording No. 9402241864, and an access easement agreement dated February 24, 1994, under Recording No. 9402241865.

Both situate in the County of King, State of Washington.

Schedule 1.5

Increases of Basic Monthly Rent
in Accordance with Changes In Consumer Price Index

The Basic Monthly Rent shall be adjusted periodically in accordance with the terms of this Schedule 1.5:

1. Price Index. For purposes of calculating adjustments of the Basic Monthly Rent, "Price Index" shall mean the Consumer Price Index-All Urban Consumers: U.S. City Average All Items, (1982-84=100) published by the United States Department of Labor, Bureau of Labor Statistics. If this index is discontinued, the parties shall select another similar index which reflects consumer prices; if the parties cannot agree on another index, the then Presiding Judge of the Superior Court for the count in which the Premises are located, upon an appropriate request which either party may make, shall designate the replacement index.

2. Adjustments to Basic Monthly Rent. On the first day of the thirty-seventh (37th) month of the term of this lease and every twelve (12) months thereafter ("Rent Adjustment Date"), the Basic Monthly Rent shall be increased by the lower of

2.1 Three percent (3%) per year from the later of (i) the Commencement Date of the Lease or (ii) the last date on which the amount of the Basic Monthly Rent was adjusted in accordance with this Schedule ("Rent Adjustment Period"), or

2.2 The percentage of increase of the Price Index between the Rent Adjustment Date and the later of (i) the Commencement Date of the Lease or (ii) the last date on which the amount of the Basic Monthly Rent was adjusted in accordance with this Schedule ("Rent Adjustment Period").

3. The percentage of increase, if any, in the Price Index shall be calculated using the Price Index published for the calendar month

immediately preceding the Rent Adjustment Date, and the Price Index most recently published for the calendar month immediately preceding the commencement of the Rent Adjustment Period. In no event, however shall the Basic Monthly Rent following the adjustment provided for in this Schedule be less than the Basic Monthly Rent payable during the period immediately preceding the Rent Adjustment Date. The Basic Monthly Rent as adjusted shall be the Basic Monthly Rent due under the Lease until the next Rent Adjustment Date and shall be the basis upon which the next Rent Adjustment shall be made.

4. Billing for Rent Adjustments. Any delay or failure of Landlord, beyond the Rent Adjustment Date, in computing or billing for the Rent Adjustment herein above provided, shall not constitute a waiver of or in any way impair the Tenant's obligation to pay such Rent Adjustment hereunder. In the event of any such delay or failure of Landlord to notify Tenant of the Rent Adjustment Tenant shall continue to pay an amount equal to the Basic Monthly Rent payable for the last month before the latest Rent Adjustment Date until the adjusted Basic Monthly Rent is determined at which time Tenant shall pay to Landlord the difference, if any, between the Basic Monthly Rent paid by Tenant and the adjusted Basic Monthly Rent determined to be payable after the Rent Adjustment Date.

AMENDMENT TO THE VIRTUAL NEWCO, INC LEASE

Add the following to Section 4 of the lease:

4.2.3 As used herein, the term "Pro Rata Share" means:

1. as to nonrecurring expenses which have a useful life in excess of the then remaining Term; the Proportionate Share multiplied by a fraction in which the numerator is the number of months (or partial months) in the then remaining Term as numerator and the number of months the useful life of the nonrecurring expense, as reasonably determined by the Landlord and Tenant, as the denominator. If Landlord and Tenant do not agree on the useful life of any nonrecurring expense, the matter shall be submitted to binding arbitration, the cost of said arbitration to be shared equally between Landlord and Tenant.

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

eMagin Corporation, a Delaware corporation

Virtual Vision, Inc., a Delaware corporation

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report dated February 28, 2001 in this Form 10-K. It should be noted that we have not audited any financial statements of the company subsequent to December 31, 2000 or performed any audit procedures subsequent to the date of our report.

New York, New York
March , 2001