APOGEE TECHNOLOGY INC
Form 10-Q
May 17, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2004

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

For the transition period from to

Commission file number 000-30656

APOGEE TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**04-3005815**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

129 MORGAN DRIVE, NORWOOD, MASSACHUSETTS 02062

(Address of principal executive offices)

(781) 551-9450

(Issuer s telephone number, including area code)

NOT APPLICABLE.

(Former name, former address and former fiscal year,
if changed since last report)

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

State the number of shares of each of the Issuer s classes of common equity, as of the latest practicable date: As of May 7, 2004, there were 11,379,870 shares of Common Stock, $.01 par value per share, outstanding.

Transitional Small Business Disclosure Format (Check one): Yes o No ý

APOGEE TECHNOLOGY, INC.

INDEX OF INFORMATION CONTAINED IN FORM 10-QSB FOR THE

QUARTER ENDED MARCH 31, 2004

PART I-FINANCIAL INFORMATION

PART II - OTHER INFORMATION

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2004 (Unaudited)	DECEMBER 31, 2003
ASSETS		
Current assets		
Cash and cash equivalents	**$ 1,685,370**	$ 2,524,209
Accounts receivable, net of allowance for doubtful accounts of $50,000 in 2004 and $45,000 in 2003	**3,681,637**	3,522,406
Inventories	**601,446**	723,944
Prepaid expenses and other current assets	**204,007**	180,261
Deferred tax asset	**195,000**	195,000
Total current assets	**6,367,460**	7,145,820
Property and equipment, net of accumulated depreciation of $410,012 in 2004 and $391,463 in 2003	**117,929**	128,831
Other assets		
Digital amplifier patents, net of accumulated amortization of $108,427 in 2004 and $103,856 in 2003	**98,280**	87,369
Other intangible assets	**62,167**	36,667
	$ 6,645,836	$ 7,398,687
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	**$ 1,009,767**	$ 1,528,590
Current maturities of capital lease obligations	**1,679**	3,318
Total current liabilities	**1,011,446**	1,531,908
Stockholders equity		
Common stock, $.01 par value; 20,000,000 shares authorized, 11,348,610 and 11,327,270 issued and outstanding in 2004 and 2003, respectively	**113,486**	113,272
Additional paid-in capital	**16,252,099**	16,171,611
Accumulated deficit	**(10,731,195)**	(10,418,104)
Total stockholders equity	**5,634,390**	5,866,779
	$ 6,645,836	$ 7,398,687

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

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	THREE MONTHS ENDED MARCH 31,	
	2004	**2003**
Revenues		
Product sales	**$ 1,696,691**	$ 1,519,593
Royalties	**375,148**	319,999
Consulting	**254,484**	
	2,326,323	1,839,592
Costs and expenses		
Product sales	**1,114,354**	1,068,244
Research and development	**711,469**	356,480
Selling, general and administrative	**818,841**	556,879
	2,644,664	1,981,603
Operating loss	**(318,341)**	(142,011)
Other (expense) income		
Interest expense	**(65)**	(499)
Interest income	**5,315**	3,173
	5,250	2,674
Net loss	**(313,091)**	(139,337)
Accumulated deficit - beginning	**(10,418,104)**	(11,174,677)
Accumulated deficit - ending	**$ (10,731,195)**	$ (11,314,014)
Basic and diluted loss per common share	**$ (0.03)**	$ (0.01)
Weighted average common shares outstanding - basic and diluted	**11,337,781**	10,749,970

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

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31,	
	2004	**2003**
Cash flows from operations		
Net loss	**$ (313,091)**	$ (139,337)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	**5,000**	5,000
Depreciation and amortization	**23,120**	22,510
Changes in operating assets and liabilities:		
Accounts receivable	**(164,231)**	(442,187)
Inventories	**122,498**	(81,117)
Prepaid expenses and other current assets	**(23,746)**	(1,071)
Accounts payable and accrued expenses	**(518,823)**	236,841
Net cash used in operating activities	**(869,273)**	(399,361)
Cash flows from investing activities		
Purchases of property and equipment	**(7,647)**	(13,564)
Patent costs	**(15,482)**	(3,153)
Other intangible assets	**(25,500)**	
Net cash used in investing activities	**(48,629)**	(16,717)
Cash flows from financing activities		
Proceeds from issuances of common stock	**80,702**	40,000
Repayment of capital lease obligations	**(1,639)**	(4,877)
Net cash provided by financing activities	**79,063**	35,123
Decrease in cash and cash equivalents	**(838,839)**	(380,955)
Cash and cash equivalents - beginning	**2,524,209**	994,296
Cash and cash equivalents - ending	**$ 1,685,370**	$ 613,341

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

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS. MARCH 31, 2004 AND 2003.

1. Basis of Presentation

The condensed consolidated interim financial statements have been prepared in accordance with the requirements of Regulation S-B and with the instructions to Form 10-QSB. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows have been included. The results of operations for the three month period ended March 31, 2004 are not necessarily indicative of the operating results to be expected for the year ending December 31, 2004. These financial statements should be read in conjunction with the financial statements and accompanying notes for the year ended December 31, 2003.

The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The financial statements include the accounts of Apogee Technology, Inc., and its wholly owned inactive subsidiary, DUBLA, Inc. (collectively the Company). All significant intercompany transactions and accounts have been eliminated.

The Company is engaged in the development, design and marketing of digital amplifier technology and related sales of semi-conductor chips. The Company is presently focused on computer based audio and entertainment media applications derived from its all-digital amplifier design trademarked as Direct Digital Amplification (DDX®).

2. Pro-forma Information - Stock Options

The Company has adopted only the disclosure provisions of Financial Accounting Standard No. 123, Accounting For Stock-Based Compensation (FAS 123). It applies APB Opinion No. 25, Accounting For Stock Issued To Employees , and related interpretations in accounting for its plan and does not recognize compensation expense for its stock-based compensation plan other than for certain options granted in 2001.

The following tables illustrate the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of FAS 123 to stock-based employee compensation. The loss per share information shown below has not been adjusted for the stock split referred to in Note 4.

	Three Months Ended March 31,			
	2004		2003	
Net loss, as reported	**$**	**(313,091)**	$	(139,337)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards *		**(689,532)**		(396,215)
Pro-forma net loss **	**$**	**(1,002,623)**	$	(535,552)

Loss per share:				
As reported, basic and diluted	**$**	**(0.03)**	$	(0.01)
Pro-forma, basic and diluted	**$**	**(0.09)**	$	(0.05)

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* All awards refers to awards granted, modified, or settled in fiscal periods beginning after December 15, 1994 - awards for which the fair value was required to be measured under FAS 123.

** For purposes of pro-forma disclosures, the estimated fair value of the options is amortized over the options vesting period. Pro-forma information regarding earnings and per share information is required by FAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model for years subsequent to 2000. Prior to 2001, the fair value of the options was valued using the minimum value method.

3. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. The major classifications of inventories are as follows at period end:

		March 31, 2004 (Unaudited)		**December 31, 2003**
Raw materials	**$**	**24,688**	$	31,528
Finished goods		**576,758**		692,416
	$	**601,446**	$	723,944

4. Stockholders Equity

Stock Options

During the three months ended March 31, 2004, the Board of Directors awarded to certain directors and employees options to purchase 477,500 shares at exercise prices ranging from $8.65 to $9.46 per share. These options were granted under the 1997 Employee, Director and

Consultant Stock Option Plan. The options vest over five years beginning at the first anniversary of the date of grant.

Other stock issuances

During the first quarter of 2004, 21,340 shares of common stock were issued as a result of exercised stock options at exercise prices ranging from $1.25 to $6.425 per share. Proceeds from the exercise of options amounted to $80,702.

Stock split

On August 12, 2003, the Board of Directors authorized a 2-for-1 split of the Company s common stock effected in the form of a 100% stock dividend. The stock dividend was paid on December 11, 2003 to stockholders of record at the close of business on November 17, 2003. No fractional shares of common stock were issued in connection with the stock split. Par value was not changed and additional paid-in capital was charged for the par value of the shares issued.

All references to the number of common shares and per-share amounts included in the accompanying condensed consolidated financial statements for March 31, 2004 and 2003 have been adjusted to reflect the stock split.

5. License Agreement

On February 7, 2001, the Company signed an exclusive license agreement with ST Microelectronics NV (ST) of the Netherlands. The agreement calls for ST to use certain intellectual property rights owned or controlled by the Company to commercialize and sell related products utilizing such technology. In consideration for this license, ST paid to the Company a one-time license fee of $1.6 million in cash and a $400,000 credit for future design services. The Company will also receive royalties based on certain formulas, as defined in the agreement. This agreement has no expiration date; however, either party may cancel the agreement upon certain advance notices as defined in the agreement. The $400,000 credit portion of the license fee is associated with future development activities of the Company. When the $400,000 amount is recognized in income, it will simultaneously be charged to research and development costs.

In prior years, the Company recognized $220,000 of the credit for future design services. During the quarter ended March 31, 2004 the Company recognized the remaining $180,000 of income and research and development costs.

6. Concentrations

During the three months ended March 31, 2004, the Company derived approximately 87% of its total revenue and product revenue from three customers.

During the three months ended March 31, 2003, the Company derived approximately 84% of its total revenue and 92% of its product revenue from three customers, respectively.

Three of the Company s major customers accounted for approximately 56% of the total accounts receivable balance at March 31, 2004.

Five of the Company s major customers accounted for approximately 98% of the total accounts receivable balance at March 31, 2003.

During the three months ended March 31, 2004, 74% of the total revenue was derived from customers in Asia and 24% of total revenue was derived from customers in Europe. In addition, 100% of the Company's product revenues were derived from customers in Asia.

During the three months ended March 31, 2003, 82% of the total revenue was derived from customers in Asia and 99% of the Company s product sales were derived from customers in Asia.

One of the Company s major vendors accounted for approximately 95% of total purchases for the three months ended March 31, 2004.

Two of the Company s major vendors accounted for approximately 98% of total purchases for the three months ended March 31, 2003.

The Company maintains accounts with financial institutions. Balances usually exceed the maximum coverage provided by the Federal Deposit Insurance Corporation on insured depositor accounts.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL

The following Management s Discussion and Analysis of the Company s Financial Condition and Results of Operations for the three-month periods ended March 31, 2004 and March 31, 2003 should be read in conjunction with the Company s Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-QSB. This discussion contains, in addition to historical statements, forward-looking statements that involve risks and uncertainties. The Company s actual results could differ significantly from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include the factors discussed in the section titled Certain Risk Factors That May Affect Future Results of Operations And Our Common Stock Price as well as other factors described in the Company s Annual Report on Form 10-KSB for the year ended December 31, 2003. The Company does not intend to update any such forward-looking statements.

OVERVIEW

The Company designs, develops and markets semiconductor products or integrated circuits (ICs) incorporating the Company s patented Direct Digital Amplification (DDX®) technology. DDX-based IC products are used in a range of audio applications including: home theater systems, powered speakers, car audio, commercial audio, and PC multi-media. Under a licensing agreement with STMicroelectronics NV (ST), the Company is developing and providing intellectual property to be used in royalty bearing products produced by ST. In addition, the Company is working under a development agreement with ST to develop and market new semiconductor products that leverage Apogee s DDX technology and ST s intellectual property and semiconductor design, development and manufacturing capability. ST is currently shipping 13 royalty bearing DDX-based semiconductor products. The Company generates revenue from the sale of DDX-based semiconductor chips and related products as well as royalties earned under the licensing agreement with ST signed in February 2001. The Company has developed and is marketing 14 different DDX-based semiconductor products and has additional products in development. The Company markets its products using a worldwide network of direct sales staff, independent sales representatives and distributors. The Company incurred a net loss of approximately $313,100 for the three months ended March 31, 2004, as compared to a net loss of $139,300 for the three months ended March 31, 2003. As of March 31, 2004, the Company had an accumulated deficit of approximately $10.7 million, as compared to a deficit of approximately $10.4 million at December 31, 2003. Of this accumulated deficit, approximately $4 million was attributable to the Company s now defunct loudspeaker business, which was discontinued in 1994. The Company s net losses and accumulated deficit (since 1995) result primarily from research costs associated with the Company s efforts to develop and market its DDX technology. The Company employed 33 people as of March 31, 2004 and December 31, 2003.

During the three-month period ended March 31, 2004, the Company derived approximately 87% of its total revenue and product revenue from four customers and three customers, respectively. The Company utilizes a network of sales representatives and distributors, as well as a sales office in Hong Kong, to support the Company s worldwide sales and marketing activities. In April 2004, the Company further expanded its sales organization with the addition of a Country Manager for Japan.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data for the three-month period ended March 31, 2004 and March 31, 2003 have been derived from the Company s financial statements. Any trends reflected by the following table may not be indicative of future results.

	For the Three Months ended March 31,	
	2004	**2003**
Statement of Operations Data:		
Revenue	$ 2,326,323	$ 1,839,592
Costs and expenses	2,644,664	1,981,603
Other income (expense)		