

APOGEE TECHNOLOGY INC  
Form 10QSB  
November 14, 2002

Use these links to rapidly review the document

[APOGEE TECHNOLOGY, INC. INDEX OF INFORMATION CONTAINED IN FORM 10-QSB FOR THE QUARTER ENDED SEPTEMBER 30, 2002](#)

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-QSB**

(Mark One)

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

**For the Quarterly Period Ended September 30, 0002**

or

**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**

(State or other jurisdiction of  
incorporation or organization)

**04-3005815**

(IRS Employer Identification No.)

**129 MORGAN DRIVE, NORWOOD, MASSACHUSETTS**

(Address of principal executive offices)

**02062**

(zip code)

**(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  No

Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

State the number of shares of each of the Issuer's classes of common equity, as of the latest practicable date: As of November 12, 2002, there were 5,258,710 shares of Common Stock, \$.01 par value per share, outstanding.

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

APOGEE TECHNOLOGY, INC.

INDEX OF INFORMATION CONTAINED IN FORM 10-QSB FOR THE  
QUARTER ENDED SEPTEMBER 30, 2002

	<u>PAGE</u>	
<b>PART I FINANCIAL INFORMATION</b>		
Item 1	Financial Statements (Unaudited)	
	<u>Condensed Consolidated Balance Sheets at September 30, 2002 and December 31, 2001.</u>	3
	<u>Condensed Consolidated Statements of Operations and Accumulated Deficit for the Three and Six Months Ended September 30, 2002 and September 30, 2001</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2002 and September 30, 2001</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	10
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	20
Item 4	<u>Controls and Procedures</u>	20
<b>PART II OTHER INFORMATION</b>		
Item 1	<u>Legal Proceedings</u>	21
Item 2	<u>Changes in Securities and Use of Proceeds</u>	21
Item 3	<u>Defaults Upon Senior Securities</u>	21
Item 4	<u>Submission of Matters to a Vote of Security Holders</u>	21
Item 5	<u>Other Information</u>	21
Item 6	<u>Exhibits and Reports on Form 8-K</u>	21
	<u>Signatures</u>	22
	<u>Certifications</u>	23

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>SEPTEMBER 30,</u> <u>2002</u>	<u>DECEMBER 31,</u> <u>2001</u>
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 636,574	\$ 2,387,178
	1,735,644	232,555

Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Accounts receivable, net of allowance for doubtful accounts of \$20,000 in 2002 and \$5,000 in 2001		
Inventories	151,828	420,047
Prepaid expenses	39,030	51,870
<b>Total current assets</b>	<b>2,563,076</b>	<b>3,091,650</b>
<b>Property and equipment, net of accumulated depreciation of \$280,242 in 2002 and \$217,491 in 2001</b>	<b>133,519</b>	<b>177,650</b>
<b>Other assets</b>		
Digital amplifier patents, net of accumulated amortization of \$79,680 in 2002 and \$68,157 in 2001	85,957	55,451
	<b>\$ 2,782,552</b>	<b>\$ 3,324,751</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 947,453	\$ 529,709
Current maturities of capital lease obligations	20,673	33,128
<b>Total current liabilities</b>	<b>968,126</b>	<b>562,837</b>
<b>Capitalized lease obligations net of current maturities</b>	<b>4,920</b>	<b>19,976</b>
<b>Total Liabilities</b>	<b>973,046</b>	<b>582,813</b>
<b>Stockholders' equity</b>		
Common stock, \$.01 par value; 20,000,000 shares authorized, 5,232,251 and 5,213,051 issued and outstanding in 2002 and 2001, respectively	52,322	52,130
Additional paid-in capital	12,826,306	12,799,146
Accumulated deficit	(11,069,122)	(10,109,338)
<b>Total stockholders' equity</b>	<b>1,809,506</b>	<b>2,741,938</b>
	<b>\$ 2,782,552</b>	<b>\$ 3,324,751</b>

**APOGEE TECHNOLOGY, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND ACCUMULATED DEFICIT**

THREE MONTHS ENDED  
SEPTEMBER 30,

NINE MONTHS ENDED  
SEPTEMBER 30,

Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

	2002	2001	2002	2001
<b>Revenues</b>				
Product sales	\$ 1,024,639	\$ 116,194	\$ 2,370,140	\$ 147,273
License fee				1,420,000
Royalties	492,576	62,500	893,510	187,500
Consulting	113,000		152,871	52,000
	<u>1,630,215</u>	<u>178,694</u>	<u>3,416,521</u>	<u>1,806,773</u>
<b>Costs and expenses</b>				
Product sales	720,310	97,486	1,638,553	117,757
Research and development	483,165	284,850	1,282,004	817,119
Selling, general and administrative	412,098	299,746	1,474,543	1,122,143
	<u>1,615,573</u>	<u>682,082</u>	<u>4,395,100</u>	<u>2,057,019</u>
<b>Income (loss) before other income (expense)</b>	14,642	(503,388)	(978,579)	(250,246)
<b>Other income (expense)</b>				
Interest expense	(1,131)	(2,911)	(4,846)	(8,911)
Interest income	5,634	14,802	23,641	48,261
	<u>4,503</u>	<u>11,891</u>	<u>18,795</u>	<u>39,350</u>
<b>Net income (loss)</b>	19,145	(491,497)	(959,784)	(210,896)
<b>Accumulated deficit beginning</b>	(11,088,267)	(8,934,151)	(10,109,338)	(9,214,752)
<b>Accumulated deficit ending</b>	\$ (11,069,122)	\$ (9,425,648)	\$ (11,069,122)	\$ (9,425,648)
<b>Basic and diluted income (loss) per common share</b>	\$ 0.00	\$ (0.10)	\$ (0.18)	\$ (0.04)
<b>Weighted average common shares outstanding basic and diluted</b>	5,234,751	4,994,877	5,233,310	4,987,522

4

**APOGEE TECHNOLOGY, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
<b>Cash flows from operations</b>		
Net loss	\$ (959,784)	\$ (210,896)

Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

	NINE MONTHS ENDED SEPTEMBER 30,	
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Provision for doubtful accounts	15,000	25,000
Depreciation and amortization	74,274	76,389
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	(1,518,089)	(135,679)
Inventories	268,219	(163,642)
Prepaid expenses	12,840	88,799
Accounts payable and accrued expenses	417,744	106,832
Deferred revenue		128,000
	<u>(1,689,796)</u>	<u>(85,197)</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(18,622)	(70,221)
Patent costs	(42,027)	(23,621)
	<u>(60,649)</u>	<u>(93,842)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuances of common stock	32,852	25,861
Redemption of common stock	(5,500)	
Repayment of capital lease obligations	(27,511)	(20,037)
	<u>(159)</u>	<u>5,824</u>
<b>Decrease in cash and cash equivalents</b>	<u>(1,750,604)</u>	<u>(173,215)</u>
Cash and cash equivalents beginning	2,387,178	1,131,246
<b>Cash and cash equivalents ending</b>	<u>\$ 636,574</u>	<u>\$ 958,031</u>

5

**APOGEE TECHNOLOGY, INC. AND SUBSIDIARY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2002 AND 2001**

**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 nine month period ended September 30, 2002 are not necessarily indicative of the operating results to be expected for the year ending December 31, 2002. These financial statements should be read in conjunction with the financial statements and accompanying notes for the year ended December 31, 2001.

## Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

The balance sheet at December 31, 2001 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. ("Technology"), 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®).

The accompanying condensed 2002 financial statements and the accompanying condensed consolidated balance sheet at December 31, 2001 have been prepared assuming the Company will continue as a going concern. Because the Company has had recurring losses, there is doubt as to the Company's ability to continue as a going concern. The Company plans to expand its marketing and sales efforts, raise additional capital through a private placement (Note 8), and obtain a new credit facility (Note 8). The viability of the Company is dependent upon its ability to further develop and market its DDX technology applications and raise sufficient funds for such purposes. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### 2. Accounts Receivable

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Two of the Company's major customers accounted for approximately 74% of the total accounts receivable balance at September 30, 2002.

6

---

### 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:

	September 30, 2002	December 31, 2001
	(Unaudited)	
Raw materials	\$ 35,226	\$ 27,484
Work in process		14,779
Finished goods	116,602	377,784
	\$ 151,828	\$ 420,047

### 4. Stock Transaction

During the three months ended September 30, 2002, 10,000 shares of common stock were redeemed and retired at \$0.55 per share.

### 5. Stock Options

During the three months ended September 30, 2002 the Board of Directors awarded options to purchase 16,000 shares at \$8.39 per share to certain employees. These options were granted under the 1997 Incentive Stock Option Plan. The options vest over five years beginning at the first anniversary of the date of grant.

### 6. License Agreement

## Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

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 and will not be recognized in income before that happens.

During the third quarter of 2002, ST performed design services for the Company valued at \$113,000 which was recorded as consulting revenues and simultaneously charged to research and development costs. When the \$287,000 balance of the aforementioned credit is recognized in income, it will also be charged to research and development costs.

### 7. Litigation

On February 19, 2002, Acoustic Technology, Inc. ("ATI") filed a complaint in the Superior Court of Suffolk County, Massachusetts, against Mr. Tak Ping Tsui, a former employee of ATI and a current employee of the Company, in which the Company was also named a defendant. The complaint alleges that the Company interfered with ATI's noncompete agreement with Mr. Tsui and violated the Massachusetts statutes on unfair and deceptive trade practices and trade secrets by hiring Mr. Tsui. ATI

7

has claimed \$1,000,000 in damages from Mr. Tsui and the Company. On February 26, 2002, the Suffolk County Superior Court denied, without prejudice, ATI's motion for a preliminary injunction seeking to stop the Company from continuing to employ Mr. Tsui and to require the Company to provide information regarding Mr. Tsui's employment by the Company. On July 2, 2002, the Suffolk County Superior Court further dismissed the misrepresentation claim against Mr. Tsui. Finally on August 7, 2002, counsel for ATI served a motion seeking to withdraw his representation of ATI in this matter. The Company intends to defend vigorously the claims against it in this matter. Further, the Company has brought a counterclaim against ATI for unfair and deceptive trade practices and unfair methods of competition.

### 8. Subsequent Events

#### *Line-of-Credit*

On October 30, 2002, the Company obtained a \$1 million discretionary line-of-credit from a bank. Any borrowings under the line, which expires on August 31, 2003, are due on demand. Borrowings are limited to the lesser of \$1 million or the sum of 75% of eligible domestic accounts receivable and 80% of eligible foreign accounts receivable. The bank, at its discretion, may make additional loan advances up to \$500,000, exclusive of the formula, but not to exceed the \$1 million. The line is secured by the Company's assets and has been personally guaranteed by two of the Company's officers/directors. Interest is payable monthly at the bank's base rate plus one percent per annum.

#### *Private Placement*

On November 6, 2002, the Company completed a Private Placement of \$500,000 consisting of 83,333 shares of common stock at \$6.00 per share.

### 9. Summary of Quarterly Operating Data

Below is a summary of quarterly operating data. Any trends reflected by the following table may not be indicative of future results.

	2002			
	Three Month Periods Ended			Nine Month Period Ended September 30
	March 31	June 30	September 30	
Product sales	\$ 286,049	\$ 1,059,452	\$ 1,024,639	\$ 2,370,140
Royalties	121,965	278,969	492,576	893,510

Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

2002

Consulting	13,400	26,471	113,000	152,871
Research and development costs	393,212	405,627	483,165	1,282,004
Net (loss) income	(768,997)	(209,932)	19,145	(959,784)
Basic and common diluted loss per common share	(0.15)	(0.04)	0.00	(0.18)

8

For the nine months ended September 30, 2002 approximately 63% of the Company's product sales were from 3 customers in the Far East.

2001

	Three Month Periods Ended			Nine Month Period Ended September 30
	March 31	June 30	September 30	
Product sales	\$ 12,540	\$ 18,539	\$ 116,194	\$ 147,273
License fee	1,420,000			1,420,000
Royalties	62,500	62,500	62,500	187,500
Consulting	25,000	27,000		52,000
Research and development costs	278,387	253,882	284,850	817,119
Net income (loss)	861,174	(580,573)	(491,497)	(210,896)
Basic and common diluted income (loss) per common share	0.17	(0.12)	(0.10)	(0.04)

9

**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- and nine- month periods ended September 30, 2002 and September 30, 2001 should be read in conjunction with the Company's Financial Statements and the 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, 2001. The Company does not intend to update any such forward-looking statements.

**INTRODUCTION**

The Company designs, develops and markets semiconductor products and integrated circuits (ICs), that incorporate 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 five royalty bearing DDX-based semiconductor products. The Company has developed and is marketing six different DDX-based semiconductor products and has additional products in development. The Company markets DDX products using a worldwide network of direct sales staff, independent sales representatives and distributors. The Company generates revenue from the sale of DDX-based semiconductor products and evaluation



## Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

boards. The Company incurred a net loss of approximately \$960,000 for the nine months ended September 30, 2002, as compared to a net loss of approximately \$211,000 for the nine months ended September 30, 2001. The lower net loss for the nine-month period ended September 30, 2001 was the result of a one-time, initial fee paid to the Company in connection with its licensing agreement with ST. As of September 30, 2002, the Company had an accumulated deficit of approximately \$11.1 million, as compared to a deficit of approximately \$10.1 million as of December 31, 2001. 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.

As of September 30, 2002, the Company had 25 employees, up from 24 as of June 30, 2002 and 22 as of December 31, 2001, and up from 17 employees as of September 30, 2001.

During the three-month period ended September 30, 2002, five customers represented, in the aggregate, approximately 82% of total revenue. The Company utilizes a network of sales representatives and distributors, as well as a sales office in Hong Kong, to support the Company's sales and marketing activities on a worldwide basis.

10

### SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data for the three- and nine-month periods ended September 30, 2002 and September 30, 2001 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-month period ended September 30,		For the nine-month period ended September 30,	
	2002	2001	2002	2001
<b>Statement of Operations Data:</b>				
Revenue	\$ 1,630,215	\$ 178,694	\$ 3,416,521	\$ 1,806,773
Cost and expenses	1,615,573	682,082	4,395,100	2,057,019
Other income (expense)	4,503	11,891	18,795	39,350
Net Profit (Loss)	\$ 19,145	(\$ 491,497)	(\$ 959,784)	(\$ 210,896)
Shares Outstanding	5,232,251	4,994,623		
<b>Balance Sheet Data:</b>				
Total assets	\$ 2,782,552	\$ 1,575,079	\$ 2,782,552	\$ 1,575,079
Stockholders' equity	\$ 1,809,506	\$ 1,012,356	\$ 1,809,506	\$ 1,012,356
Profit (Loss) per share (basic and diluted)	\$ 0.00	\$ (0.10)	\$ (0.18)	\$ (0.04)

### RESULTS OF CONTINUING OPERATIONS OF THE COMPANY

#### Revenues

Total revenue increased by approximately \$1.5 million, or 812% to approximately \$1.6 million for the three months ended September 30, 2002 from approximately \$179,000 for the three months ended September 31, 2001 and increased by approximately \$1.6 million or 89% to approximately \$3.4 million for the nine months ended September 30, 2002 from approximately \$1.8 million for the nine months ended September 30, 2001. Revenue for the three and nine months ended September 30, 2001 primarily consisted of the one-time, initial fee paid in connection with the Company's licensing agreement with ST. The increase in revenue for both the three and nine months ended September 30, 2002 from the same period in 2001 was primarily due to increased sales of Apogee's semiconductor products, as well as increased royalty payments under the Licensing Agreement with ST. During the nine months and three months ended September 30, 2002, revenue consisted of product sales, royalties and consulting fees. Revenues from the sale of its products, consisting of DDX evaluation boards and semiconductor ICs, increased by approximately \$908,000 to \$1.0 million from \$116,000 for the three-month period ended September 30, 2002 compared to the three-month period ended September 30, 2001, and by approximately \$2.2 million to \$2.3 million from \$147,000 for the nine-month period ended September 30, 2002 compared to the nine-month period ended September 30, 2001. This increase in Product Revenue was primarily due to growth in the sales of the Company's semiconductor products particularly in the Far East. Revenue from non-product related items accounted for approximately 37% and 30% of total revenue for the three and nine months ended September 30, 2002, compared to revenue for non-product related items of approximately 35% and 79% of total revenue for the same period in 2001. During the three months and nine months ended

## Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

September 30, 2002, the Company recorded net royalty payments under the ST agreement of approximately \$493,000 and \$894,000, compared to royalty payments of \$62,500 and \$125,000 for the same period in 2001, representing an increase of approximately 700% and 500% for the respective periods. In addition, during the third quarter ended September 30, 2002, the Company recognized \$113,000 of consulting revenue from design services performed by ST as part of a \$400,000 design credit in accordance with the terms of the Licensing Agreement with ST. Simultaneously the \$113,000 was charged to research and development costs.

11

---

### **Cost of Revenue**

Cost of revenue was approximately \$720,000 and \$1.6 million for the three months and nine months ended September 30, 2002 compared to approximately \$97,000 and \$118,000 for the same period in 2001. Cost of Revenue includes cost of purchasing finished semiconductor chips and costs associated with assembly, test and shipping of those products as well as customs and storage fees associated with warehousing a portion of the Company's semiconductor products in Asia. This increase in the cost of revenue is primarily attributable to costs relating to increased sales of the Company's semiconductor products and the establishment of a storage facility in Asia. The Company anticipates that the cost of revenue will continue to increase in dollar amounts as the Company expects an increase in sales. For the three months and nine months ended September 30, 2002, the Company recorded a gross profit on product sales of 31% and 30%, respectively. Since revenue for the three months and nine months ended September 30, 2001 primarily consisted of a one-time license fee paid by STMicroelectronics, gross profit on product sales was not relevant.

### **Research and Development ("R&D") Expenses**

Engineering and development expenses consist primarily of salaries and related expenses in the design, development and technical support of the Company's products. Research and development expenses increased to approximately \$483,000 and \$1.3 million for the three months and nine months ended September 30, 2002, compared to approximately \$285,000 and \$817,000 for the same period in 2001. This increase of approximately 69% and 57%, respectively, was related to increased staffing and use of third party consultants to assist with the design of PC Boards to support the Company's customers and potential customers. Costs related to human resources for R&D increased to approximately \$337,000 and \$956,000 from \$257,000 and \$728,000 for the three months and nine months ended September 30, 2002, an increase of approximately \$81,000 or 31% and \$228,000 or 31%, respectively. For the three months ended September 30, 2002, \$113,000 was incurred as a result of partial utilization of a \$400,000 design credit to STMicroelectronics offsetting \$113,000 of consulting revenue recognized during the third quarter. The balance of this credit will be charged to research and development costs as the Company recognizes the income. For the three and nine months ended September 30, 2002 third party consultants accounted for approximately \$11,000 and \$120,000 of total research and development costs. During the three months and nine months ended September 30, 2001, the Company had minimally used third party consultants. The overall increase reflects the Company's expanded research and development activity as evidenced by the employment of sixteen employees in research and development as of September 30, 2001, an increase of four from September 30, 2002. During the three and nine months ended September 30, 2002, the Company released an improved version of its controller chip, the DDX-8000, and several reference design boards to support semiconductor product marketing. Due to the technical nature of the Company's products, engineering and design support are critical parts of the Company's strategy during both the development of its products and the support to its customers from product design to final production. Management anticipates that it will continue to commit resources to research, development and design activities. It expects these expenses to increase, but to decline as a percentage of revenue.

### **Selling, General and Administrative ("SG&A") Expenses**

Selling expenses consist primarily of salaries and related expenses for personnel engaged in the marketing and sales of the Company's products, as well as costs related to trade shows, product literature, travel and other promotional support costs. In addition, selling expenses include costs related to operation of the Hong Kong sales office, opened in April 2002. General and administrative costs consist primarily of executive and administrative salaries, professional fees and other associated corporate expenses. SG&A expenses were approximately \$412,000 and \$1,475,000 for the three and nine months ended September 30, 2002 compared to \$300,000 and \$1.1 million for the same period in

12

---

2001, an increase of approximately \$122,000 or 37% and \$352,000 or 31%, respectively. Human resource costs increased approximately \$70,000 and \$303,000 to approximately \$164,000 and \$551,000 during the three months and nine months ended September 30, 2002 compared to \$94,000 and \$248,000 during the same period in 2001, an increase of 74% and 122%, respectively. This increase is primarily due to higher compensation associated with additional employees, including four employees in Asia. Approximately \$42,000 and \$73,000 of the Human

## Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

Resource expense for the three and nine months ended September 30, 2002 is directly related to staffing the Company's Asian office. The overall increase reflects the Company's expansion of its sales and marketing activity as evidenced by the establishment of a sales office in Hong Kong. In addition, the company utilizes a sales consultant based in Taiwan to help support the sales effort in the Far East. Travel expense for the three months and nine months ended September 30, 2002 was approximately \$47,000 and \$170,000, compared to approximately \$43,000 and \$117,000 for the same period last year, an increase of approximately \$4,000 or 8% and \$53,000 or 45%, respectively, over the same period in 2001. This increase was primarily due to increased travel to the Far East predominantly for customer design and support. Professional expenses decreased approximately \$22,000 and \$69,000 for the three months and nine months ended September 30, 2002 to approximately \$65,000 and \$318,000 from approximately \$87,000 and \$387,000 for the three months and nine months ended September 30, 2002, a decrease of 25% and 18%, respectively. For the three months and nine months ended September 30, 2002, combined legal and accounting expenses accounted for approximately \$32,000 and \$226,000, compared to \$44,000 and \$293,000 for the three months and nine months ended September 30, 2001, a decrease of 31% and 42%, respectively. This decrease in both the three months and nine months was partially attributable to the Company's completion of relisting on the NASDAQ SmallCap Market during Fiscal 2001. The Company expects that selling, general and administrative expenses will increase in absolute dollars in future periods as the Company expands its sales channels, marketing efforts and administrative infrastructure, but to decline as a percentage of revenue.

### Interest Income (Expense)

Interest income, net of expense, includes income from the Company's cash and cash equivalents and from investments and expenses related to its financing activities. During the three months and nine months ended September 30, 2002, the Company generated net interest income of approximately \$5,000 and \$19,000 compared to net interest income of approximately \$12,000 and \$39,000 during the same period in 2001. The decrease in non-operating income over the three-month and nine-month period ended September 30, 2002 was primarily due to use of funds and lower interest rates on cash and short-term investments.

### Net Profit (Loss)

The Company basically broke even for the three months ended September 30, 2002 reporting a profit of approximately \$19,000 or \$.004 per basic and diluted common stock per share. For the nine months ended September 30, 2002, the Company's net loss was approximately \$960,000, or \$.18 per basic and diluted common share, compared to a loss of approximately \$491,000, or \$.10 per basic and diluted common share and \$211,000 or \$.04 per basic and diluted common share, respectively for the three and nine month period ended September 30, 2001. The \$211,000 net loss for the nine-month periods ended September 30, 2001 was, in part, the result of a \$1.4 million one-time, initial fee paid in connection with the Company's licensing agreement with ST during February 2001.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity at September 30, 2002 consisted of approximately \$637,000 in cash and short-term investments and no debt. This compares to approximately \$2,387,000 in cash and cash equivalents at December 31, 2001. This decrease in cash was due to financing of the

---

Company's \$1.7 million in Accounts Receivable as well as working capital requirements. On October 30, 2002, the Company secured a \$1 million revolving bank line of credit and on November 6, 2002 completed a \$500,000 private placement.

Net cash used in operations during the nine-month period ended September 30, 2002 was approximately \$1,690,000 compared to approximately \$85,000 used in operations in the nine-month period ended September 30, 2001. As of September 30, 2002, inventory was approximately \$152,000 compared to inventory of approximately \$163,000 as of September 30, 2001. Net accounts receivable was approximately \$1,736,000 at September 30, 2002, up from approximately \$165,000 as of September 30, 2001. This increase in accounts receivable was due to increased shipments of the Company's semiconductor products during the third quarter of 2002. As of September 30, 2002, four major customers accounted for approximately 87% of the total accounts receivable balance. The Company increased its reserve against bad debts to \$20,000 as of September 30, 2002 from \$5,000 as of December 31, 2001. The Company believes this reserve is sufficient at this time as a significant percentage of the Company's receivables are secured by letters of credit.

Net cash used in investing activities for the nine months ended September 30, 2002 was approximately \$61,000, compared to approximately \$94,000 for the nine months ended September 30, 2001.

No cash was used in financing activities for the nine months ended September 30, 2002, compared to approximately \$6,000 provided by financing activities during the same period in 2001. During the nine-month period ended September 30, 2002, the Company received

approximately \$27,000 net in cash from the exercise of options and warrants. During the period ended September 30, 2002, 10,000 shares of exercised options were cancelled, thereby reducing the net cash received from financing activities by approximately \$6,000 from the previous quarter ended June 30, 2002. The Company believes that cash flow from operations and the completion of a \$500,000 private placement in November 2002, together with amounts available under its working capital line of credit, secured in October 2002, are sufficient to support operations and fund capital equipment requirements over the next twelve months.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of the consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an on-going basis, the Company evaluates its estimates, including those related to uncollectible accounts receivable, inventories, intangibles and other long-lived assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. The Company maintains allowances for uncollectible accounts receivable for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company maintains allowances for estimated excess or obsolete inventories based on the Company's review of inventory levels, projected future sales and comparison of actual manufacturing costs to standard costs. If actual market conditions are less than favorable than those projected by management, additional allowances may be required. Property, plant and equipment, patents, trademarks and other intangible assets are amortized over their estimated useful lives. Useful lives are based on management's estimates over the period that such assets will generate revenue. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate

14

---

that the carrying value of an asset may not be recoverable. Future adverse changes in market conditions or poor operating results of underlying capital investments or intangible assets could result in losses or an inability to recover the carrying value of such assets, thereby possibly requiring an impairment charge in the future.

#### **CERTAIN RISK FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS AND OUR COMMON STOCK PRICE**

There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this Form 10-QSB. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

#### **RISKS RELATED TO OUR BUSINESS**

##### **WE HAVE A HISTORY OF LOSSES, EXPECT FUTURE LOSSES AND MAY NEVER ACHIEVE OR SUSTAIN PROFITABILITY.**

As of September 30, 2002, we had accumulated deficit of approximately \$11.1 million. Of this amount, approximately \$4 million was generated by the Company's former loudspeaker subsidiary, Apogee Acoustics, Inc., which discontinued operations in 1994. We incurred net losses of approximately \$960,000 for the nine months ended September 30, 2002, \$895,000 for the year ended December 31, 2001, \$1.9 million in 2000 and \$1.1 million in 1999. We may continue to incur net losses and generate negative cash flow in the future. We will need to continue to generate revenue to achieve and sustain profitability and positive cash flow. Our ability to generate future revenue and achieve and sustain profitability will depend on a number of factors, many of which are described throughout this risk factor section. If we are unable to achieve or maintain profitability, our share price would likely decline.

##### **THE COMPANY HAS ONLY A SMALL NUMBER OF CUSTOMERS, AND THE LOSS OF THESE CUSTOMERS WOULD HAVE A MATERIAL ADVERSE EFFECT ON THE COMPANY'S BUSINESS.**

During the nine months ended September 30, 2002, the Company derived approximately 82% of its total revenues from five customers. The loss of any of the company's customers would have a material adverse effect on the Company's business, financial condition and results of operations. The Company intends to diversify its customer base in the coming months in order to reduce its dependence on a small number of

customers. The Company may not be able to succeed in these efforts.

**OUR MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE AND, THEREFORE, OUR SUCCESS DEPENDS ON OUR ABILITY TO INTRODUCE NEW PRODUCTS IN A TIMELY FASHION.**

The life cycle of the technology and any future products developed by us may be limited by the emergence of new products and technologies, changes in consumer preferences and other factors. Our future performance will depend on our ability to consistently:

identify emerging technological trends in our market;

identify changing consumer requirements;

develop or maintain competitive technology, including new product offerings;

15

---

improve the performance, features and reliability of our products, particularly in response to technological change and competitive offerings;

bring technology to market quickly at cost-effective prices; and

protect our intellectual property.

There can be no assurance that we will be successful in developing and marketing new products that respond to technological and competitive developments and changing customer needs, or that such products will gain market acceptance and be incorporated into the technology or products of third parties. Any significant delay or failure to develop new enhanced technologies, including new product offerings, and any failure of the marketplace to accept any new technology and product offerings would have a material adverse effect on our business, financial condition and results of operations.

**WE MAY REQUIRE ADDITIONAL CAPITAL TO FUND OUR OPERATIONS AND RESEARCH AND DEVELOPMENT.**

Because we have historically had losses and only a limited amount of cash has been generated from operations, we have funded our operating activities to date primarily from the sale of securities. We will likely require additional capital in the future, which may be in the form of additional sales of securities. The additional capital may not be readily available to us on favorable terms, if at all. The sale of securities will result in dilution to our current stockholders' ownership in the Company.

**OUR ABILITY TO ACHIEVE SUSTAINED REVENUE GROWTH WILL BE HARMED IF WE ARE UNABLE TO MAINTAIN OUR EXISTING LICENSING RELATIONSHIPS.**

Part of our business strategy is to expand our licensing activities with ST and to enter into licensing relationships with other companies in order to offer products to a larger customer base than could be reached through our own development and marketing efforts. We believe that such relationships can accelerate market penetration of our products and technologies, while limiting our manufacturing exposure and sales and marketing costs. However, there can be no assurance that we will be able to expand or maintain our existing licensing relationships or establish new licensing relationships on commercially reasonable terms, if at all. Any future inability by us to maintain our licensing relationships or to enter into additional licensing relationships, or the failure of one or more of our licensing relationships to contribute to the development and maintenance of a market for our products, could have a material adverse effect on our business, operating results and financial condition.

**OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE**

We have experienced fluctuations in our quarterly operating results in the past and it is likely that these fluctuations will continue in the future. These fluctuations are caused by many factors, including, but not limited to:

availability and pricing from our suppliers;

changes in the demand for our products by customers;

introductions or enhancements of products, or delays in the introductions or enhancements of products, by us or our competitors;

rate and success of new customer development;

changes in our pricing policies or those of our competitors;

success in attracting, retaining and motivating qualified personnel; and

16

---

changes in general economic conditions.

A substantial portion of our operating expenses is related to personnel, facilities, and sales and marketing programs and are fixed. Our expense level is based in part on our expectations of future orders and sales, which are extremely difficult to predict. Accordingly, we may not be able to adjust our fixed expenses quickly enough to address any significant shortfall in demand for our products in relation to our expectations.

Fluctuations in our operating results may also result in fluctuations in our common stock price. In such event, the trading price of our common stock would likely suffer and adversely affect our ability to raise capital and the value of your investment in the Company.

**IF WE ARE UNABLE TO HIRE OR RETAIN KEY PERSONNEL, WE MAY NOT BE ABLE TO OPERATE OUR BUSINESS SUCCESSFULLY.**

We may not be successful in recruiting and retaining executive officers and other key management and technical personnel. The competition for employees with the necessary high level of technical expertise to design and market our products is intense, particularly in eastern Massachusetts. We will need to hire a number of additional technical personnel if we are to increase the rate at which we develop new products. Because competition for highly skilled technical personnel is so intense, companies in Apogee's industry are subject from time to time to complaints brought by competitors alleging interference with contractual relations or wrongful hiring of employees. Such lawsuits may be costly, may divert management attention and resources from the operation of our business, and may therefore adversely affect our financial condition and results of operations. In addition, the loss of the management and technical expertise of our senior management could seriously harm us.

**WE DO NOT HAVE MANUFACTURING CAPABILITIES, AND AS A RESULT, WE RELY ON OUTSIDE FOUNDRIES TO MANUFACTURE OUR SEMICONDUCTOR PRODUCTS.**

We have no manufacturing capabilities, nor do we have plans to establish any such capabilities. Accordingly, we utilize outside semiconductor foundries to manufacture our semiconductor products. There are significant risks associated with our reliance on these foundries that can adversely affect our business, operating results and financial condition. These risks include:

the ability to maintain foundry relationships, the failure of which could result in significant delays in product introduction due to the time necessary to establish new relationships;

the loss of foundry priority that may result in limiting our ability to obtain products on schedule;

limited control over product quality that could result in product returns and the loss of customers;

inability to control manufacturing yield that could increase production costs, thereby reducing sales potential and operating margins; and

lack of access or control over new process and manufacturing technologies to maintain product competitiveness in the market.

**OUR PRODUCTS USE NEW TECHNOLOGY AND MAY HAVE MANUFACTURING DEFECTS OR OTHER CHARACTERISTICS THAT ARE ONLY DETECTED AFTER INSTALLATION IN CUSTOMER APPLICATIONS, WHICH MAY HARM OUR BUSINESS.**

Our products are based on recently developed technology and are manufactured using state-of-the-art manufacturing processes. Our approach to product qualification and testing may not fully evaluate or identify product characteristics or defects that could adversely affect the product's ability to operate in the intended application. If such defects or characteristics are discovered after

17

---

installation, product revenue might be significantly delayed and our ability to maintain existing customers and to retain new customers may be seriously affected.

**OUR ABILITY TO ACHIEVE REVENUE GROWTH WILL BE HARMED IF WE ARE UNABLE TO PERSUADE THE MARKET TO ADOPT OUR NEW AMPLIFIER TECHNOLOGY.**

We face challenges in persuading manufacturers to adopt our products using our new DDX amplifier technology. Traditional amplifiers use design approaches developed in the 1930s. These approaches are still used in most amplifiers and engineers are familiar with these design approaches. In order to adopt our products, manufacturers and engineers must understand and accept our new technology. In addition, our amplifier technology may be more expensive for some applications than the traditional amplifier technology. For these reasons, prospective customers may be reluctant to adopt our technology.

**INTENSE COMPETITION IN THE SEMICONDUCTOR AND CONSUMER AUDIO INDUSTRY COULD PREVENT US FROM ACHIEVING OR SUSTAINING PROFITABILITY.**

The semiconductor and consumer audio industry is highly competitive, and we expect the intensity of the competition to increase. Many of our competitors have greater financial, technical, research, marketing, sales, distribution, service and other resources than we do. Moreover, our competitors may offer broader product lines and have greater name recognition than we do, and may offer discounts as a competitive tactic. In addition, several development stage companies are currently creating or developing technologies and products that compete with or are being designed to compete with our technologies and products. Our competitors may develop or market technologies or products that are more effective or more commercially attractive than our current or future products, or that may render our technologies or products less competitive or obsolete. Accordingly, if competitors introduce superior technologies or products and we cannot make enhancements to our technologies and products necessary for them to remain competitive, our competitive position, and in turn, our business, revenues and financial condition, will be seriously harmed.

**RISKS RELATED TO OUR INTELLECTUAL PROPERTY**

**OUR INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS MAY BE INSUFFICIENT TO PROTECT OUR COMPETITIVE POSITION.**

Our business depends, in part, on our ability to protect our intellectual property. We rely primarily on patent, copyright, trademark and trade secret laws to protect our proprietary technologies. We cannot be sure that such measures will provide meaningful protection for our proprietary technologies and processes. We have two issued United States patents and two pending patent applications. We cannot be sure that any existing or future patents will not be challenged, invalidated or circumvented, or that any right granted thereunder would provide us meaningful protection. The failure of any patents to provide protection to our technology would make it easier for our competitors to offer similar products.

We also generally enter into confidentiality agreements with our employees and strategic partners, and generally control access to and distribution of our documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization, develop similar technology independently or design around our patents. In addition, effective copyright, trademark and trade secret protection may be unavailable or limited in certain foreign countries.

---

**WE MAY BE SUBJECT TO INTELLECTUAL PROPERTY RIGHTS DISPUTES WHICH COULD DIVERT MANAGEMENT'S ATTENTION AND COULD BE COSTLY.**

The semiconductor and consumer audio industry is characterized by vigorous protection and pursuit of intellectual property rights. From time to time, we may receive notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. We cannot be sure that we will prevail in these actions, or that other actions alleging infringement by us of third-party patents, misappropriation or misuse by us of third-party trade secrets or the invalidity of one or more patents held by us will not be asserted or prosecuted against us, or that any assertions of infringement, misappropriation or misuse or prosecutions seeking to establish the invalidity of our patents will not seriously harm our business. For example, in a patent or trade secret action, an injunction could be issued against us requiring that we withdraw particular products from the market or necessitating that specific products offered for sale or under development be redesigned.

Irrespective of the validity or successful assertion of various claims of infringement, misappropriation or misuse of other parties' proprietary rights, we would likely incur significant costs and diversion of our management and personnel resources with respect to the defense of such claims, which could seriously harm our business. If any claims or actions are asserted against us, we may seek to obtain a license under a third party's intellectual property rights. We cannot be sure that under such circumstances a license would be available on commercially reasonable terms, if at all. Moreover, we often incorporate the intellectual property of our strategic customers into our designs, and we have certain obligations with respect to the non-use and non-disclosure of such intellectual property. We cannot be sure that the steps taken by us to prevent our, or our customers', misappropriation or infringement of the intellectual property will be successful.

**RISKS RELATING TO OUR COMMON STOCK****MARKET FLUCTUATIONS COULD NEGATIVELY IMPACT THE MARKET PRICE OF OUR COMMON STOCK.**

The stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. We expect that the market price of our Common Stock will fluctuate as a result of variations in our quarterly operating results. These fluctuations may be exaggerated if the trading volume of our Common Stock is low. In addition, due to the technology-intensive nature of our business, the market price for our Common Stock may rise and fall in response to various factors including:

announcements of technological innovations or new products, or competitive developments;

changes in earnings estimates or investment recommendations by securities analysts;

investor perceptions and expectations regarding our or our competitors' products;

acquisitions or strategic alliances by us or our competitors; and

the gain or loss of a significant customer or order.

In addition, market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our Common Stock.

---

**BECAUSE A LIMITED NUMBER OF PERSONS, INCLUDING DIRECTORS AND EXECUTIVE OFFICERS, OWN A MAJORITY OF OUR COMMON STOCK AND THEREFORE CONTROL OUR COMPANY, DECISIONS MAY BE MADE BY THEM THAT**



**MAY BE DETRIMENTAL TO OTHER STOCKHOLDERS.**

As of September 30, 2002 our executive officers and directors owned approximately fifty-eight percent (58.19%) of the outstanding shares of Common Stock of the Company. Accordingly, such persons have sufficient voting power to control the outcome of matters that are put to a stockholder vote, including the election of a majority of the board of directors, and any merger, consolidation or sale of all or substantially all of our assets, and also have control over our management and affairs. As a result of such voting power, these stockholders will be able to control the outcome of corporate actions, including proxy contests, mergers involving us, tender offers, open market purchase programs or other purchases of Common Stock that could give our stockholders the opportunity to realize a premium over the then prevailing market price for their shares of Common Stock. This concentration of ownership could also adversely affect our stock's market price.

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's financial instruments include: cash, cash equivalents, accounts receivable and accounts payable. At September 30, 2002, the carrying value of the Company's cash, cash equivalents accounts receivable and accounts payables approximate fair values given the short maturity of these instruments.

Although the Company's sales are predominately to international markets, the Company believes that it does not have material foreign currency exchange rate risk since international sales are in U.S. dollars and material purchases from foreign suppliers are typically also denominated in U.S. dollars. Additionally, the functional currency of the Company's foreign sales office is the U.S. dollar.

It is the Company's policy not to enter into derivative financial instruments for speculative purposes.

**ITEM 4 CONTROLS AND PROCEDURES**

- (a) Evaluation of Disclosure Controls and Procedures. The Company's chief executive officer and principal financial officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-14 (c) and 15d-14 (c)) as of a date within ninety days before the filing date of this quarterly report. Based on that evaluation, the chief executive officer and principal financial officer have concluded that the Company's current disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company was made known to them by others, particularly during the period in which this Quarterly Report on Form 10-QSB was being prepared.
- (b) Changes in Internal Controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. Accordingly, no corrective actions were required or undertaken.

**PART II OTHER INFORMATION**

**ITEM 1 LEGAL PROCEEDINGS**

Not applicable.

**ITEM 2 CHANGES IN SECURITIES**

On July 24, 2002, the Company redeemed and cancelled 10,000 shares of common stock that had been issued upon exercise of options by one employee.

On August 16, 2002, the Company granted options to three employees to purchase, in the aggregate, up to 16,000 shares of the Company's Common Stock at an exercise price of \$8.39 per share, under the Plan.

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**



## Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

I have reviewed this quarterly report on Form 10-QSB of Apogee Technology, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Herbert M. Stein  
Herbert M. Stein, Chairman of the Board,  
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Spiegel, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Apogee Technology, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "evaluation Date"); and
  - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

/s/ David Spiegel  
David Spiegel  
Treasurer and Principal Financial Officer and Principal Accounting Officer

24

---

FORM-10QSB  
SEPTEMBER 30, 2002

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
99.1	Statement Pursuant to Section 906 the Sarbanes-Oxley Act of 2002 by Chief Executive Officer and Principal Financial Officer Regarding Facts and Circumstances Relating to Exchange Act Filings

---

25