

APOGEE TECHNOLOGY INC  
Form 10QSB  
May 15, 2007

**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 March 31, 2007

**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 001-10456

**APOGEE TECHNOLOGY, INC.**

(Exact name of small business issuer as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**04-3005815**  
(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  No

Edgar Filing: APOGEE TECHNOLOGY INC - Form 10QSB

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date: As of April 27, 2007, there were 11,968,332 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  
PERIODS ENDED MARCH 31, 2007 AND MARCH 31, 2006

**PART I - FINANCIAL INFORMATION**

|                 |   |    |
|-----------------|---|----|
| <u>Item 1 -</u> | <u>Financial Statements</u>   |    |
|                 | <u>Consolidated Balance Sheets at March 31, 2007 (unaudited) and December 31, 2006 (audited)</u>  | 3  |
|                 | <u>Consolidated Statements of Operations and Accumulated Deficit for the Three Months Ended March 31, 2007 and March 31, 2006 (all unaudited)</u> | 4  |
|                 | <u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2007 and March 31, 2006 (all unaudited)</u>                         | 5  |
|                 | <u>Notes to Consolidated Financial Statements (all unaudited)</u>   | 6  |
| <u>Item 2 -</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>  | 14 |
| <u>Item 3 -</u> | <u>Controls and Procedures</u>  | 20 |

**PART II - OTHER INFORMATION**

|                   |  |    |
|-------------------|--|----|
| <u>Item 1 -</u>   | <u>Legal Proceedings</u>   | 20 |
| <u>Item 2 -</u>   | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 20 |
| <u>Item 3 -</u>   | <u>Defaults Upon Senior Securities</u>                             | 20 |
| <u>Item 4 -</u>   | <u>Submission of Matters to a Vote of Security Holders</u>         | 20 |
| <u>Item 5 -</u>   | <u>Other Information</u>   | 20 |
| <u>Item 6 -</u>   | <u>Exhibits</u>  | 20 |
| <u>Signatures</u> |  | 21 |

**PART I FINANCIAL INFORMATION****Item 1 Financial Statements****APOGEE TECHNOLOGY, INC. AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS**

|  | MARCH 31,<br>2007<br>(Unaudited) | DECEMBER 31,<br>2006<br>(Audited) |
|--|----------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                  |                                   |
| <b>Current assets</b>  |                                  |                                   |
| Cash and cash equivalents  | \$ 2,277,259                     | \$ 3,051,420                      |
| Accounts receivable, net of allowance for doubtful accounts of \$13,245 in 2007 and 2006 respectively                                  | 24,127                           | 11,196                            |
| Inventories, net   |                                  |                                   |
| Prepaid expenses and other current assets  | 55,658                           | 69,465                            |
| Total current assets   | 2,357,044                        | 3,132,081                         |
| <b>Property and equipment, net</b>   | <b>216,342</b>                   | <b>117,217</b>                    |
| <b>Other assets</b>  |                                  |                                   |
| Patents  | 238,357                          | 208,703                           |
| Exclusive licensing, net   | 32,634                           | 22,574                            |
| Construction in progress   |                                  | 90,642                            |
|  | \$ 2,844,377                     | \$ 3,571,217                      |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                                  |                                   |
| <b>Current liabilities</b>   |                                  |                                   |
| Accounts payable and accrued expenses  | \$ 671,577                       | \$ 710,187                        |
| Total current liabilities  | 671,577                          | 710,187                           |
| <b>Commitments and Contingencies</b>   |                                  |                                   |
| <b>Stockholders equity</b>   |                                  |                                   |
| Common stock, \$.01 par value; 20,000,000 shares authorized, 11,968,332 issued and outstanding at March 31, 2007 and December 31, 2006 | 119,683                          | 119,683                           |
| Additional paid-in capital   | 18,421,510                       | 18,396,909                        |
| Accumulated deficit  | (16,368,393)                     | (15,655,562)                      |
| Total stockholders equity  | 2,172,800                        | 2,861,030                         |
|  | \$ 2,844,377                     | \$ 3,571,217                      |

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

## APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

|   | THREE MONTHS ENDED MARCH 31, |                      |
|---|------------------------------|----------------------|
|   | 2007                         | 2006                 |
| <b>Revenues</b>   |                              |                      |
| Product sales   | \$ 53,670                    | \$ 985,398           |
|   | <b>53,670</b>                | 985,398              |
| <b>Costs and expenses</b>   |                              |                      |
| Product sales   | 216                          | 725,244              |
| Research and development  | 244,260                      | 394,576              |
| Selling, general and administrative                                 | 553,892                      | 626,709              |
|   | <b>798,368</b>               | 1,746,529            |
| <b>Operating loss</b>   | <b>(744,698 )</b>            | <b>(761,131 )</b>    |
| <b>Other income (expense)</b>                                       |                              |                      |
| Interest/other income   | 31,867                       | 53,715               |
| Interest/other expense  |                              | (21,586 )            |
|   | <b>31,867</b>                | 32,129               |
| <b>Net loss</b>   | <b>\$ (712,831 )</b>         | <b>\$ (729,002 )</b> |
| Accumulated deficit beginning                                       | \$ (15,655,562 )             | \$ (12,684,559 )     |
| <b>Accumulated deficit ending</b>                                   | <b>(16,368,393 )</b>         | <b>(13,413,561 )</b> |
| <b>Basic and diluted loss per common share</b>                      | <b>\$ (0.06 )</b>            | <b>\$ (0.06 )</b>    |
| <b>Weighted average common shares outstanding basic and diluted</b> | <b>11,968,332</b>            | 11,968,332           |

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

**APOGEE TECHNOLOGY, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

|   | <b>THREE MONTHS ENDED MARCH 31,</b> |                     |
|---|-------------------------------------|---------------------|
|   | <b>2007</b>                         | <b>2006</b>         |
| <b>Cash flows from operations</b>   |                                     |                     |
| Net income (loss)   | \$ (712,831 )                       | \$ (729,002 )       |
| <i>Adjustments to reconcile net income (loss) to net cash used in operating activities:</i> |                                     |                     |
| Provision for doubtful accounts   |                                     | (56,926 )           |
| Provision for slow moving, excess and obsolete inventory                                    | (73,950 )                           | 32,270              |
| Depreciation and amortization   | 18,291                              | (2,873 )            |
| Stock compensation expense  | 24,603                              | 74,590              |
| <i>Changes in operating assets and liabilities:</i>   |                                     |                     |
| Accounts receivable   | (12,931 )                           | 68,949              |
| Inventories   | 73,950                              | 682,108             |
| Prepaid expenses and other current assets   | 13,806                              | 30,934              |
| Accounts payable and accrued expenses   | (38,610 )                           | (218,551 )          |
| Deferred distributor revenue  |                                     | (711,501 )          |
| <b>Net cash used in operating activities</b>  | <b>(707,672 )</b>                   | <b>(830,002 )</b>   |
| <b>Cash flows from investing activities</b>   |                                     |                     |
| Purchases of property and equipment   | (25,222 )                           | (4,882 )            |
| Patent costs  | (29,654 )                           | (4,509 )            |
| Leasehold improvements  | 165                                 |                     |
| License fee   | (11,778 )                           |                     |
| <b>Net cash used in investing activities</b>  | <b>(66,489 )</b>                    | <b>(9,391 )</b>     |
| <b>Cash flows from financing activities</b>   |                                     |                     |
| Net cash provided by financing activities   |                                     |                     |
| <b>Decrease in cash and cash equivalents</b>  | <b>(774,161 )</b>                   | <b>(839,393 )</b>   |
| Cash and cash equivalents beginning   | 3,051,420                           | 5,512,974           |
| <b>Cash and cash equivalents ending</b>   | <b>\$ 2,277,259</b>                 | <b>\$ 4,673,581</b> |

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

**APOGEE TECHNOLOGY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2007 AND MARCH 31, 2006 (UNAUDITED)**

**1. The Company and Basis of Presentation**

*The Company*

Apogee Technology, Inc. and Subsidiary (the Company or Apogee, we, us, or our) designs, develops and commercializes advanced drug delivery and sensor solutions based upon its proprietary Micro Electromechanical Systems (MEMS), nano fabrication and drug delivery technologies. Our Medical Products Group is developing PyraDerm an advanced intradermal drug delivery system to meet the needs of patients, health insurers, companies developing pharmaceuticals, as well as, governments and international health organizations. We believe PyraDerm has significant advantages over competitive approaches for the delivery of vaccines, high potency therapeutic protein drugs and non FDA regulated cosmetic and nutraceutical active ingredients. We have evaluated the feasibility of PyraDerm by performing in vitro tests with model drugs and are planning to start in vivo testing this year. We are working to establish pharmaceutical industry compliant manufacturing methods and to define regulatory strategies to support its commercialization. Our business strategy includes: (i) the licensing or selling of our technologies to pharmaceutical or medical device companies; (ii) establish partnerships with pharmaceutical and device companies to commercialize our products; and (iii) developing, producing and marketing our own medical products. Our Sensor Products Group is focused on the design, development and marketing of proprietary MEMS/Nanotechnology based sensors for the medical, automotive, industrial and consumer markets. In December 2005, we introduced our first sensor products, a family of miniature pressure sensor die, trademarked under the Sensilica® brand name. These devices are produced using a novel manufacturing technology that we believe reduces size and cost while improving reliability as compared to alternative MEMS sensor solutions. We intend to sell these sensor devices as stand-alone die to sensor integrators and as packaged solutions directly and through independent representatives and distributors. We have begun the sales cycle by providing customer samples of our sensor die and packaged products and by shipping small quantities of production sensor die.

From 1981 until 1995, Apogee Acoustics Incorporated (Acoustics) engineered, manufactured, and marketed high quality, patented ribbon loudspeaker systems for use in home audio and video entertainment systems. In 1987 Apogee Technology, Inc. was organized as a Delaware corporation and operated through its wholly owned subsidiary, Acoustics. We discontinued our loudspeaker business in 1994 and utilized our audio experience on the development of the world's first all-digital, high efficiency audio amplifier integrated circuits (IC), which we trademarked as Direct Digital Amplification or DDX®. We transitioned our business to take advantage of the patent we received in 1991 for related technology and to pursue the market opportunity created by the industry adoption of digital audio transmission, recording and playback. In 1999, we released our first IC products in 1999, and subsequently released a total of over 25 IC products. In addition to our IC product sales, we also licensed DDX technology to several IC companies, including STMicroelectronics NV (ST), one of the world's largest semiconductor companies. Under this licensing agreement with ST, Apogee developed and provided intellectual property to be used in royalty bearing products produced by ST.

In May 2004, in order to expand our technology base and to further diversify our product and market opportunities, we acquired a portfolio of MEMS and nanotechnology intellectual property, trade secrets and know-how developed by Standard MEMS, Inc. MEMS are devices produced using high volume IC manufacturing techniques that include both electrical circuits and microscopic mechanical systems. Concurrently, we hired employees from the former Standard MEMS, Inc. and established a MEMS Division that we have subsequently consolidated into our Norwood headquarters. Since this acquisition, we have been using this acquired know-how plus additional technologies to develop MEMS and nanotechnology based drug delivery and sensor systems.

On October 5, 2005, we completed a transaction with SigmaTel, Inc. (SigmaTel) whereby we sold certain assets of our audio division, including the DDX technology and the associated royalties from our license agreement with ST, for approximately \$9.78 million. As part of the transition, a significant portion of Apogee's engineering and marketing staff related to the audio division left the Company after they were offered positions at SigmaTel. By the terms of a non-compete with SigmaTel, signed in connection with our sale of assets to them, we can no longer compete in the Class D audio/amplifier business for a period of two years. We reorganized the Company's remaining MEMS division into two business groups, the Medical Products Group and the Sensor Products Group. We also closed our sales offices in China, Japan, Taiwan and Hong Kong and terminated our agreements with our independent sales representatives and distributors that supported our audio IC business. As of March 31, 2007, we are carrying inventory with an original cost of approximately \$1.7 million and a net value of zero, after reserves for slow moving, excess and obsolete inventory. This inventory is available for sale.



***Basis of Presentation***

***Consolidated Financial Statements***

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

***Going Concern***

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As shown in the consolidated financial statements, we have incurred continuing losses and negative cash flows from operations. Net losses were approximately \$713,000 and negative cash flows from operations were approximately \$617,000 for the three months ended March 31, 2007. This raises substantial doubt about the Company's ability to continue as a going concern.

The Company sold certain tangible and intangible assets associated with its audio business in 2005 and has approximately \$2.3 million of cash at March 31, 2007. The Company has reduced, in the short-term, its operating expenses for payroll and related costs, rents and third party consulting fees. The Company believes that its current working capital and amounts that may be raised to support operations will be sufficient to fund its capital and operational requirements at least through December 31, 2007. The Company is actively pursuing various options for additional funding. Also see Footnote 12 Notification from the American Stock Exchange.

The long-term success of the Company is dependent upon its ability to successfully develop and market its sensor and medical device products which are based upon its MEMS technology, to attain profitable operations and raise additional funds as needed for such purposes. There can be no assurance, however, that the Company will be able to generate sufficient revenue, become profitable or that additional funds will be available to the Company on acceptable terms, if at all.

***Use of Estimates in Financial Statements***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods and such differences could be material.

**2. Summary of Significant Accounting Policies**

***Revenue Recognition***

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 ( SAB 104 ), Revenue Recognition in Financial Statements: Revenue Recognition , which states that revenue should be recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The following policies apply to the Company's major product sales categories for revenue recognition.

**Sales to OEM Customers:** Revenue is recognized under the Company's standard terms and conditions of sale, title and risk of loss transfer to the customer at the time products are shipped to the customer or the customer's representative/freight forwarder (shipping terms Ex Works). The Company has experienced minimal warranty or other returns and based upon historical experience has recorded a \$10,000 provision for such returns.

**Sales to Distributors:** At times the Company provides incentives such as stock rotation, price protection and other incentives to its distributors. Therefore, under the sell through method of revenue recognition the Company defers recognition of revenue until such time that the distributor sells products to its customers based upon receipt of point-of-sale reports from the distributors. Distributor payments received before revenue is recognized are recorded as deferred revenue. Unsold inventory held at distributors is included as a component of finished goods inventory. At September 30, 2006 all deferred revenue has been recognized. If and when material amounts of our sensor and medical products items are shipped to the Company's distributors, the stated Revenue Recognition Policy will be resumed.



The Company records royalty revenue when earned in accordance with the underlying agreement. Royalties are based upon sales of products commercialized from the Company's licensed technology. Consulting revenue is recognized as services are performed in accordance with the terms of the underlying agreements.

#### ***Loss Per Share***

Basic net loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted average number of common stock outstanding during the period. Diluted net loss per share is computed based on the weighted average number of common stock and dilutive potential common stock outstanding. The calculation of diluted net loss per share excluded potential common stock if the effect is anti-dilutive. Potential common stock consists of incremental common stock issuable upon the exercise of stock options and common stock issuable upon the exercise of common stock warrants.

#### ***Research and Development***

Costs for research and development are expensed as incurred.

#### ***Inventories***

Inventories are stated at the lower of cost on a first-in, first-out basis or market. See Footnote 4 to the financial statements. This policy requires the Company to make estimates regarding the market value of the Company's inventory, including an assessment of excess or obsolete inventory. The Company determines excess and obsolete inventory based on an estimate of the future demand and estimated selling prices for the Company's products within a specified time horizon, generally 12 to 24 months.

During the three months ended March 31, 2007, the Company recorded a recovery of previous reserve provisions for slow moving, excess and obsolete inventory of approximately \$74,000 to adjust for current inventory levels. The inventory as of March 31, 2007, entirely consisting of Apogee held inventory, was approximately \$1.740 million before the allowance for slow moving, excess and obsolete inventory. This compares to inventory at December 31, 2006, net of reserves, of approximately \$1.814 million.

#### ***Purchase commitment losses***

The Company accrues for estimated losses on non-cancelable purchase orders of products, which may occur if the future sale price declines below the committed purchase price. There are no outstanding purchase commitments of product inventory and therefore no provision was required at March 31, 2007.

#### ***Property and Equipment***

Major replacements and betterments of equipment are capitalized. Cost of normal maintenance and repairs is charged to expense as incurred. Depreciation is provided over the estimated useful lives of the assets using accelerated methods. Leasehold improvements are amortized over either the term of lease or the estimated useful life of the improvement.

#### ***Leasehold Improvements/Construction in Progress***

Construction in progress consists of costs related to the renovations and construction of a laboratory to be used for the development of medical device products. On January 3, 2007 the Company announced the completion of its laboratory. Subsequently, all costs previously recorded as Construction in Progress were reclassified to Leasehold Improvements and are being amortized on a straight-line basis over a three-year period.

#### ***Patents***

Costs incurred to register and obtain patents will be capitalized and amortized on a straight-line basis over their estimated useful lives. This policy to be formalized once a patent has been approved and placed into service. During the fiscal year ended December 31, 2006, the Company submitted five U. S. patent applications.

#### ***Exclusive License Fee***

The Company is capitalizing license fees paid to third parties for costs associated with the exclusive rights to their patents. The Company is amortizing these fees over a period of four years.



### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Substantially all of the Company's cash is held in high quality money market funds comprised of short-term, fixed income securities earning interest at 4.93% at March 31, 2007.

### ***Use of Estimates in Financial Statements***

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Accounts Receivable***

The Company carries its trade receivables from direct customers less an allowance for doubtful accounts to ensure that trade receivables are carried at net realizable value. On a periodic basis, the Company evaluates the collectibility of its accounts receivable on a variety of factors, including length of time receivables are past due, indication of customer willingness to pay, significant one-time events and historical experience. An additional reserve for individual accounts is recorded when the Company becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or substantial deterioration in the customer's operating results or financial position. 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. Accounts receivable are generally considered past due if any portion of the receivable balance is outstanding for more than 90 days. If circumstances related to the Company's customers change, estimates of the recoverability of receivables would be further adjusted.

### ***Fair value of financial instruments***

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable and notes and accounts payable, approximate their fair values due to their relative short maturities and based upon comparable market information available at the respective balance sheet dates. The Company does not hold or issue financial instruments for trading purposes.

### ***Stock Based Compensation***

The Company has a stock-based compensation plan, the 1997 Employee, Director and Consultant Stock Option Plan (Plan), which is described below. Prior to fiscal 2006, the Company accounted for the Plan under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (SFAS 123). Compensation costs related to stock options granted at fair value under the Plan were not recognized in the consolidated statements of income.

In December 2004, FASB issued SFAS 123 (revised 2004), Share-Based Payments (SFAS 123(R)). Under the new standard, companies are no longer able to account for stock-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25. Instead companies are required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of income.

Prior to January 1, 2006, the Company had adopted only the disclosure provisions of SFAS 123(R). It applied APB Opinion No. 25, Accounting For Stock Issued To Employees, and related interpretations in accounting for the Plan and did not recognize compensation expense for the Plan.

Effective January 1, 2006, the Company adopted SFAS 123(R) using the modified-prospective-transition method. Under this transition method, stock compensation costs recognized beginning January 1, 2006 include (a) compensation cost for all stock-based compensation payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all stock-based payments granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

Included in the Company's net loss for the three months ended March 31, 2007 was a compensation charge of approximately \$24,600 due to the adoption of SFAS 123 (R).



**Accounting for Stock Compensation**

Stock-based compensation costs are generally based on the fair value calculated from the Black-Scholes option-pricing model on the date of grant for stock options. The fair values of stock grants are amortized as compensation expense over the options' vesting period. Compensation expense recognized is shown in the operating activities section of the consolidated statements of cash flow.

In anticipation of adopting SFAS 123(R), the Company evaluated the assumptions used in the Black-Scholes model. The Company continues to calculate the expected volatility based solely on historical volatility. The Company believes that historical volatility provides the best estimate of future stock price volatility.

The expected term was previously and is currently calculated based on an analysis of vesting periods and contractual life. The Company believes that this analysis provides a better estimate of option term periods.

The Company continues to base the estimate of risk-free rate on the U.S. Treasury yield curve in effect at the time of grant. The Company has never paid cash dividends and does not currently intend to pay cash dividends, and thus has assumed a 0% dividend yield.

As part of the requirements of SFAS 123(R), the Company is required to estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

The Company's stock compensation activity with respect to the three months ended March 31, 2007 is summarized below:

| Stock Options                    | Shares    | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|-----------|---------------------------------|---|---------------------------|
| Outstanding at December 31, 2006 | 2,899,100 | \$ 4.6512                       |   |                           |
| Granted                          | 26,000    | 1.2769                          |   |                           |
| Exercised                        | -0-       |                                 |   |                           |
| Cancelled or expired             | (28,500)  | 7.6054                          |   |                           |
| Outstanding at March 31, 2007    | 2,896,600 | \$ 4.5918                       | 6.2326                                      | \$ 13,300,751             |
| Vested at March 31, 2007         | 2,489,700 | \$ 5.1727                       | 5.7719                                      | \$ 12,878,483             |
| Exercisable at March 31, 2007    | 2,489,700 | \$ 5.1727                       | 5.7719                                      | \$ 12,878,483             |

The following table summarizes information about options outstanding as of March 31, 2007:

| Range of Exercise Prices | Options Outstanding |   | Options Exercisable             |                    |                                 |
|--------------------------|---------------------|---|---------------------------------|--------------------|---------------------------------|
|                          | Number Outstanding  | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$0.25 - 1.69            | 998,400             | 7.3157                                      | \$ 0.9603                       | 591,500            | \$ 0.9071                       |
| \$2.71 - 6.590           | 1,299,200           | 5.0149                                      | \$ 5.4017                       | 1,299,200          | \$ 5.4017                       |
| \$8.45 - 12.15           | 599,000             | 7.0686                                      | \$ 8.8883                       | 599,000            | \$ 8.8883                       |
| Total at March 31, 2007  | 2,896,600           | 6.2326                                      | \$ 4.5918                       | 2,489,700          | \$ 5.1727                       |

During the three months ended March 31, 2007, the Company granted options to purchase 26,000 shares of its common stock at a weighted average fair market value of \$1.0493. No options were exercised during the three months ended March 31, 2007. During the three months ended March 31, 2007, options to purchase 8,300 shares of Apogee common stock vested. The weighted average fair value of these options was \$0.6205. Total stock-based compensation expense for the three months ended March 31, 2007, was approximately \$24,600 compared to approximately \$74,600 for the three months ended March 31, 2006.



**Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure many financial instruments at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its consolidated financial position and results of operations.

**3. Accounts Receivable**

Accounts Receivable at March 31, 2007 and December 31, 2006 are comprised of the following:

|                                      | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006<br>(Audited) |
|--------------------------------------|----------------------------------|-----------------------------------|
| Distributor                          | \$ 14,930                        | \$ 11,162                         |
| Direct customers                     | 22,442                           | 13,279                            |
|                                      | <b>\$ 37,372</b>                 | <b>\$ 24,441</b>                  |
| Less allowance for doubtful accounts | \$ (13,245 )                     | (13,245 )                         |
| Net accounts receivable              | <b>\$ 24,127</b>                 | <b>\$ 11,196</b>                  |

**4. Inventories**

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

|   | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| Raw materials   | \$                               | \$                                |
| Finished goods held by Apogee                                 | 1,740,078                        | 1,814,028                         |
| Finished goods held by distributors                           |                                  |                                   |
|   | <b>\$ 1,740,078</b>              | <b>\$ 1,814,028</b>               |
| Less allowance for slow moving, excess and obsolete inventory | (1,740,078 )                     | (1,814,028 )                      |
| Inventory net   | <b>\$</b>                        | <b>\$</b>                         |

**5. Property and Equipment**

Property and equipment at March 31, 2007 and December 31, 2006 are comprised of the following:

|                               | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006<br>(Audited) |
|-------------------------------|----------------------------------|-----------------------------------|
| Equipment                     | \$ 161,982                       | \$ 136,761                        |
| Software                      | 32,943                           | 32,943                            |
| Furniture and fixtures        | 22,047                           | 22,047                            |
| Leasehold improvements        | 90,477                           | 22,954                            |
|                               | <b>\$ 307,449</b>                | <b>\$ 214,715</b>                 |
| Less accumulated depreciation | (91,107 )                        | (97,488 )                         |

\$ 216,342 \$ 117,217

11

---

Depreciation expense was \$16,573 for the three months ended March 31, 2007.

The estimated useful lives of the classes of physical assets were as follows:

| Description            | Depreciable Lives |
|------------------------|-------------------|
| Equipment              | 5 years           |
| Software               | 3 years           |
| Furniture and fixtures | 7 years           |
| Leasehold improvements | Term of lease     |

#### 6. Accrued Expenses

|                        | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006<br>(Audited) |
|------------------------|----------------------------------|-----------------------------------|
| Accrued audit expenses | \$ 66,000                        | \$ 60,000                         |
| Accrued legal expenses | 42,000                           | 25,000                            |
| Accrued taxes          |                                  |                                   |
| Other accrued expenses | 62,000                           | 64,000                            |
|                        | \$ 170,000                       | \$ 149,000                        |

#### 8. Stockholders Equity

##### *Stock Options*

During the three months ended March 31, 2007, Company awarded an employee options to purchase 6,000 shares at an exercise price of \$1.20 per share. In addition, the Board of Directors awarded to two new members of the Advisory Board options to purchase 10,000 shares at an exercise price of \$1.24 per share and 10,000 shares at an exercise price of \$1.36 per share. These options were granted under the 1997 Employee, Director and Consultant Stock Option Plan. The options granted to the employee vest over five years beginning at the first anniversary of the date of grant. The options granted to the members of the Medical Advisory Board vest over one year beginning with 50% at the six-month anniversary of the date of grant and the remaining 50% at the one year anniversary of the date of grant.

#### 9. Related Party Transactions

The Company rents its facility from an entity controlled by a stockholder for \$4,400 per month pursuant to a lease that expired December 31, 2005. Currently, the Company is renting the facility on a month-to-month basis. In addition, see Footnote 11 Indemnification Agreements with our Executives.

#### 10. Concentrations

- During the three months ended March 31, 2007, the Company derived approximately 83% of its revenue as a result of sales by three customers.
- During the three months ended March 31, 2006, the Company derived approximately 76% of its revenue as a result of sell through by three distributors.
- Four of the Company's customers accounted for approximately 100% of the total accounts receivable balance at March 31, 2007.
- Three of the Company's customers accounted for approximately 91% of the total accounts receivable balance at March 31, 2006.
- During the three months ended March 31, 2006, the Company derived 100% of its revenue from customers located in South America, Asia and North America.
- During the three months ended March 31, 2006, the Company derived approximately 97% of its revenue from distributors located in Asia and Europe.

The Company maintains its cash accounts with high quality financial institutions. Balances usually exceed the maximum coverage (\$100,000) provided by the Federal Deposit Insurance Corporation on insured depositor accounts.

#### 11. Indemnification Arrangements with our Executives

The Company has been assuming and will continue to assume the legal costs and related expenses of Herbert M. Stein, in connection with the civil case in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida entitled *Joseph Shamy v. Herbert M. Stein*, case No.: 50 2005 CA 007719 XXXXMB. To date we have incurred approximately \$332,000 toward this indemnification.

#### 12. Notification from the American Stock Exchange

As reported on the Company's current report on Form 8-K dated January 12, 2007, Apogee was notified on January 12, 2007, by the American Stock Exchange ( AMEX ) that AMEX has accepted the Company's plan to regain compliance with AMEX continued listing standards, and that the Company's listing will be continued pursuant to an extension.

The Company submitted a plan of compliance to AMEX (the Plan ) on November 30, 2006, which was amend on December 20, 2006, outlining its operational plan and strategic objectives towards regaining compliance with certain of the AMEX continued listing standards. The Plan was prepared in response to a letter received from AMEX on November 1, 2006, indicating that the Company was no longer meeting certain continued listing standards. The Company does not meet the standards as a result of having shareholders' equity of less than \$4 million and losses from continuing operations and/or net losses in three out of its four most recent fiscal years, as is required in Section 1003 (a) (ii) of the Company Guide; and because the Company was also not in compliance with Section 1003 (a) (iii) of the Company Guide, as it has shareholders equity of less than \$6 million and losses from continuing operations in its five most recent fiscal years.

The Company will be subject to periodic review by the AMEX Staff during the extension period, which ends on November 1, 2007. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the extension period could result in the Company being delisted from the AMEX.

#### 13. Notification of Complaint by Former Employee

On March 29, 2007 Apogee received a complaint, which had been filed at the Superior Court in Norfolk County, Massachusetts, entitled *Michael S. Danielson v. Apogee Technology*, Case No. 0700512. A former Apogee employee initiated the complaint alleging, among other things, that Apogee failed to pay certain bonuses and retirement contributions in connection with a compensatory arrangement concerning the development of certain digital amplifier technology. The former employee claims unpaid compensation of approximately \$155,000 and the request for relief asks for the amount to be trebled, and include costs and attorneys' fees. The management of Apogee believes the former employee's claim to be without merit and the Company will defend itself vigorously against all of the claims asserted in this legal action.



## 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, 2007 and March 31, 2006 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, 2006, as amended.

### OVERVIEW

Apogee designs, develops and commercializes advanced drug delivery and sensor solutions based upon its proprietary Micro Electromechanical Systems ( MEMS ), nano fabrication and drug delivery technologies. Our Medical Products Group is developing PyraDerm an advanced intradermal drug delivery system to meet the needs of patients, health insurers, companies developing pharmaceuticals, as well as, governments and international health organizations. We believe PyraDerm will have significant advantages over competitive approaches for the delivery of vaccines, high potency therapeutic protein drugs and non FDA regulated cosmeceutical and nutraceutical active ingredients. We have evaluated the feasibility of PyraDerm by performing in vitro tests with model drugs and are planning to start in vivo testing this year. We are working to establish pharmaceutical industry compliant manufacturing methods and to define regulatory strategies to support its commercialization. Our business strategy includes: (i) the licensing or selling of our technologies to pharmaceutical or medical device companies, (ii) establish partnerships with pharmaceutical and device companies to commercialize our products and; (iii) develop, have made and market our own medical products. Our Sensor Products Group is focused on the design, development and marketing of proprietary MEMS/Nanotechnology based sensors for the medical, automotive, industrial and consumer markets. In December 2005, we introduced our first sensor products, a family of miniature pressure sensor die, trademarked under the Sensilica® brand name. These devices are produced using a novel manufacturing technology that we believe reduces size and cost while improving reliability as compared to alternative MEMS sensor solutions. We intend to sell these sensor devices as stand-alone die to sensor integrators and as packaged solutions directly and through independent representatives and distributors. We have begun the sales cycle by providing customer samples of our sensor die and packaged products and by shipping small quantities of production sensor die.

During the three months ended March 31, 2007, virtually all of our revenue was derived from the sales of the remaining audio IC inventory. We expect that future revenue will initially be the result of sensor sales, potential licensing and development revenues resulting from the grant of rights to our intellectual property. In order to support our operations and maintain our AMEX listing, we intend to secure additional funding in 2007. We plan to add a network of direct sales staff, independent sales representatives and distributors to support our medical and sensor products. We currently outsource the manufacturing, assembly and certain testing of our medical and sensor products.

At March 31, 2007, we had an accumulated deficit of approximately \$16.4 million, as compared to a deficit of \$15.7 million as of December 31, 2006. Our historical net losses and accumulated deficit (since 1995) result primarily from the costs associated with our efforts to design, develop and market our DDX technology as well as costs associated with our efforts to develop new medical and sensor product.

As of March 31, 2007, we had 12 employees compared to 14 employees for the same period in 2006. This reduction in employees was a result of the final closing of our Hong Kong and Japanese operations is a direct result of the audio business sale to SigmaTel, Inc. in October 2005.

During the three-month period ended March 31, 2007, we derived approximately 83% of our revenue as a result of sales to three customers. As of March 31, 2006, Apogee recognized substantially all of the deferred revenue, approximately \$252,000, related to one of our former distributors. At December 31, 2005, we had formally terminated this distributor contract. At March 31, 2006, it was determined that we would have no continuing involvement with this distributor as it related to the former audio IC business. All of the revenue was attributable to the former audio IC division.

**SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected financial data for the three-month periods ended March 31, 2007 and 2006 have been derived from our unaudited financial statements. Any trends reflected by the following table may not be indicative of future results.

|  | <b>For the Three Months ended<br/>March 31,</b> |               |
|--|---|---------------|
|  | <b>2007</b>                                     | <b>2006</b>   |
| <b>Statement of Operations Data:</b>     |   |               |
| Revenue                                  | \$ 53,670                                       | \$ 985,398    |
| Costs and expenses                       | 798,368   | 1,746,529     |
| Other income (expense)                   | 31,867  | 32,129        |
| Net loss                                 | \$ (712,831 )                                   | \$ (729,002 ) |
| <br>                                     |   |               |
| Shares outstanding                       | 11,968,332                                      | 11,968,332    |
| <br><b>Balance Sheet Data:</b>           |   |               |
| Total assets                             | \$ 2,844,377                                    | \$ 6,112,641  |
| Stockholders' equity                     | \$ 2,172,800                                    | \$ 4,885,135  |
| Loss per share (basic and fully diluted) | \$ (0.06 )                                      | \$ (0.06 )    |

**RESULTS OF OPERATIONS OF THE COMPANY****Revenue**

We have traditionally derived our revenue from three sources: (1) product sales, which consist of merchandise sales made either directly to original equipment manufacturers or sell through point of sale ( POS ) by distributors. All such shipments are fulfilled from our contracted warehouse in Hong Kong or from our Norwood, Massachusetts office and are reported net of returns; (2) royalty revenue, which formerly consisted of royalties paid by STMicroelectronics, which have now been sold as part of the transaction with SigmaTel and (3) consulting income related to contractual services or development activities for third parties. The Company may, in the future, receive royalties under its remaining audio licensing agreements and from new agreements contemplated under its two new business groups. See Footnote 2 of the financial statements. We anticipate that future revenue streams will come from both our sensor and medical device products, generally in the form of strategic alliances or arrangements with development or marketing partners, direct product sales and distribution arrangements. We envision the future of our medical devices as (i) licensing or selling of our technologies to pharmaceutical or medical device companies; (ii) establishing partnerships with pharmaceutical and device companies to commercialize our products; and (iii) developing, producing and marketing our own medical products..

Total revenue declined by approximately \$931,700 or 95% to approximately \$53,700 for the three months ended March 31, 2007 from approximately \$985,400 for the three months ended March 31, 2006. During the three months ended March 31, 2007 and March 31, 2006 substantially all revenue recorded was from the sale of remaining inventory related to the former audio IC business.

Some revenue from the sale of products related to the former audio IC business is expected to continue over the short term as the remaining inventory is sold. We expect that the decline in our revenues will continue until such time as we are able to generate revenues from the sale of our medical and sensor products.

**Cost of Revenue**

Cost of revenue decreased as a result of reduced product revenue to \$216 for the three months ended March 31, 2007, compared to approximately \$725,000 for the three months ended March 31, 2006. Cost of revenue from our former audio IC business primarily consists of purchased finished semiconductor chips and storage fees associated with warehousing a large portion of our semiconductor products in Asia. The nominal cost of goods for the three months ended March 31, 2007 is a result of our having previously reserved 100% of the remaining from the audio IC business inventory.



## Operating Expenses

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

The Company's research and development ( R&D ) expenses consist primarily of salaries, development material costs, external consulting and service costs related to the design of new products and the refinement of existing products. Research and development expenses were reduced to approximately \$244,300 for the 3 months ended March 31, 2007, compared to approximately \$394,600 for the three months ended March 31, 2006. This decrease of approximately \$150,300 or 38% was the result of reduced utilization of third party consultants. For the three months ended March 31, 2007, expenses incurred from utilization of third party consultants decreased by approximately \$131,300 or 90% to approximately \$14,600, compared to approximately \$145,900 for the same period in 2006.

In addition, to the reduction in the use of third party consultants, expense reductions in development costs related to the sensor group, less travel and entertainment expense, fewer software expenditures, the Company also closed its facility in Long Island and a laboratory located in Connecticut, which contributed to the overall decrease in R&D expenses.

We anticipate that we will continue to commit resources to research and development activities as our financial position allows, and as a result, R&D costs are expected to increase substantially in the future.

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

Selling expenses consist primarily of salaries and related expenses for personnel engaged in the marketing and selling 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 had included costs related to the operation of Apogee's Hong Kong and Japan sales offices. Subsequent to the SigmaTel transaction, the Taiwan and China offices were closed. In February 2006 we closed our Hong Kong office and in July 2006 we closed our Japanese office. General and Administrative costs consist primarily of executive and administrative salaries, professional fees and other associated corporate expenses. Selling, General and Administrative ( SG&A ) expenses decreased approximately \$72,800 or 12% to approximately \$553,900 for the three months ended March 31, 2007, compared to approximately \$626,700 for the three months ended March 31, 2006. The decrease in SG&A was attributable primarily to the closing of the Hong Kong and Japanese offices as well as decreased human resource costs, business development and travel and entertainment costs partially offset by increases in professional fees and corporate insurance.

Human resource costs decreased approximately \$92,700 or 29% to approximately \$231,900 for the three months ended March 31, 2007 compared to approximately \$324,600 for the three months ended March 31, 2006. This decrease reflects the reduction in staffing and subsequent closing of the Hong Kong and Japanese offices as well as a reduction in the stock compensation expense for the quarter ended March 31, 2007. As of March 31, 2007, Apogee employed a total of 12 employees all located in Norwood, Massachusetts. As of March 31, 2006, we employed a total of 14 employees, 12 domestically with 1 employee each in Hong Kong and Japan.

Professional expenses increased by approximately \$56,900 or 43% to approximately \$189,800 for the three months ended March 31, 2007, compared to approximately \$132,900, for the three months ended March 31, 2006. Of this increase, approximately \$40,200 was as a result of an increase in legal expenses. Investor relations and Sarbanes Oxley consultants accounted for the remaining increase in professional fees. Legal expenses increased to approximately \$132,700 for the three-month period ended March 31, 2007, compared to approximately \$92,500 for the three months ended March 31, 2006. This increase was as a result of indemnification costs, which were approximately \$53,500 for the 3 months ended March 31, 2007, compared to approximately \$35,100 for the 3 months ended March 31, 2006. See Footnote 11 of the financial statements Indemnification Arrangements with our Executives. Accounting expenses decreased to approximately \$17,000 for the three months ended March 31, 2007, compared to approximately \$28,000 for the same period in 2006. Investor relations and Sarbanes Oxley consultants accounted for approximately \$15,600 and \$12,900, respectively for the three months ended March 31, 2007. Business development expenses associated with the Sensor Program were reduced by approximately \$27,600 to approximately \$1,300 for the three months ended March 31, 2007, compared to approximately \$28,900 for the same period in 2006.

Other expenses contributing to the decrease in SG&A were reduced travel and entertainment expense as well as a reduction in tax liability. Travel and entertainment expense decreased by approximately \$5,300 or 20% to approximately \$21,800 for the three months ended March 31, 2007, compared to approximately \$27,100 for the three months ended March 31, 2006. Corporate taxes were reduced by approximately \$5,800 or 79% to approximately \$1,500 for the three months ended March 31, 2007, compared to approximately \$7,300 for the same period in 2006. These reductions were partially offset by an increase in corporate insurance as a result of the Company obtaining Directors and Officers' effective as of November 27, 2006. For the three months ended March 31, 2007, Directors' and Officers' insurance expense was approximately \$18,200.

Operating expenses are expected to increase over the next few quarters to support our Sensor and Medical Product groups.



### **Interest Income (Expense)**

Interest income includes income from Apogee's cash and cash equivalents and from investments and expenses related to its financing activities. During the three months ended March 31, 2007, we generated interest income of approximately \$31,900 compared to interest income of approximately \$53,700 during the same period in 2006. This decrease in interest income for the three months ended March 31, 2007 was primarily due to reduced interest on reduced cash balances as of March 31, 2007.

No interest expense was incurred for the three months ended March 31, 2007 and 2006. For the three months ended March 31, 2006, we incurred approximately \$20,000 in other expense which resulted from a loss on the disposal of fixed assets and additional expenses in connection with the SigmaTel transaction.

### **Net Loss**

Apogee's net loss for the three months ended March 31, 2007 was approximately \$712,800 or \$0.06 per basic and diluted common share, compared to a net loss of approximately \$729,000 or \$0.06 per basic and diluted common share for the three months ended March 31, 2006.

### **LIQUIDITY AND CAPITAL RESOURCES**

Our principal source of liquidity at March 31, 2007, consisted of approximately \$2.3 million in cash and cash equivalents. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Substantially all of our cash is held in high quality money market funds comprised of short-term, fixed income securities earning interest at 4.93% at March 31, 2007. This compares to approximately \$3.1 million in cash and cash equivalents as of December 31, 2006. In addition, as of March 31, 2007, we had working capital of approximately \$1.7 million compared to working capital of approximately \$4.3 million at March 31, 2006. As of March 31, 2007, and the same period in 2006 we had no debt.

Net cash used in operating activities for the three-month period ended March 31, 2007 decreased to approximately \$707,700 compared to approximately \$830,000 in the three-month period ended March 31, 2006. The decrease was primarily due to a decrease operating expenses as a result of decreased spending following the closing of the Hong Kong and Japanese offices.

As of March 31, 2007, reserves for slow moving, excess and obsolete inventory was at 100% of the remaining inventory related to the former audio IC business. This compares to inventory, net of reserves of approximately \$614,000 as of March 31, 2006. Net accounts receivable was approximately \$24,000 at March 31, 2007, down from approximately \$119,300 at March 31, 2006. As of March 31, 2007 we had reserves against bad debt of approximately \$13,000 compared to a reserve of \$88,000 as of March 31, 2006. Given the quality of current accounts receivable, we believe that the remaining reserve is sufficient at this time.

Net cash used in investing activities for the three months ended March 31, 2007 was approximately \$66,500, compared to approximately \$9,300 for the three months ended March 31, 2006. On January 3, 2007 we announced the completion of our state-of-the-art laboratory to be used to develop advanced drug delivery systems. Along with the laboratory we completed renovations to the entire facility.

No cash was provided by financing activities for the three months ended March 31, 2007 and March 31, 2006.

We believe that cash flow from operations as well as the funds from the audio division sale will be sufficient to support operation and fund its capital requirements at least through December 31, 2007. The Company requires additional funding and is reviewing our its capital needs and is exploring its alternatives to accomplish its funding goals. The Company requires additional capital to conduct the research and development activity needed to support its medical device and sensor business. Also see Footnote 12 of the financial statements Notification from the American Stock Exchange.

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

Apogee prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates, judgments and assumptions that we believe are reasonable based upon the information currently available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Any future changes to these estimates and assumptions could have a significant impact on the reported amounts of revenue, expenses, assets and liabilities in our financial statements. The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:



### **Revenue Recognition**

Apogee recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 ( SAB 104 ), Revenue Recognition in Financial Statements: Revenue Recognition , which states that revenue should be recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The following policies apply to Apogee's two major product sales categories for revenue recognition. Sales to end users ( OEM ): Revenue is recognized under our standard terms and conditions of sale, title and risk of loss transfer to the customer at the time products are shipped from our warehouse or delivered to the customer's representative/freight forwarder. Sales to Distributors: From time to time we provide stock rotation rights, price protection and other incentives to our Distributors. See Footnote 2 of the financial statements. As a result of these incentives, Apogee has adopted a policy of deferring recognition of revenue until the distributor sells products to its customers based upon receipt of point-of-sale reports from the distributors. We accrue the estimated cost of post-sale obligations including product warranty returns, based on historical experience. To date we have experienced minimal warranty returns.

In addition, we record royalty revenue when earned in accordance with the underlying agreements. Consulting and licensing revenue is recognized as services are performed.

### **Accounts Receivable**

Apogee performs credit evaluations of customers and determines credit limits based upon payment history, customers' creditworthiness and other factors, as determined by our review of their current credit information. For a majority of our larger sales, we can require the issuance of a Letter of Credit. Smaller accounts must either pay via credit card or in advance of shipment. We continuously monitor collections and payments from our customers, and we maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While we have not had any significant credit losses to date, we cannot guarantee that we will continue to avoid credit losses in the future. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Since our accounts receivable are highly concentrated in a small number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of our accounts receivable, our liquidity or our future results of operations.

### **Inventory**

Apogee states its inventory at the lower of cost (first-in, first-out) or market. This policy requires that we make certain estimates regarding the market value of the inventory, including an assessment of excess or obsolete inventory. In the recent past, Apogee had determined excess and obsolete inventory based on estimated future demands and estimated selling prices for our products within a specified time frame, which was generally 12 months. The estimates used for expected demand were also used for short-term capacity planning and inventory purchasing and were consistent with revenue forecasts. All our current inventory is associated with our former audio business. We have chosen to expense our sensor die and sensor packaged products until such time as we have material results from this business. We are still in the research and developmental phase of our medical products business and thus do not have any related inventory. For the three months ended March 31, 2007, we have approximately \$1.7 million of inventory related to our former audio IC business that has been 100% reserved and has no carrying value on our balance sheet. This compares to inventory at December 31, 2006, of approximately \$1.8 million of audio IC inventory which had been 100% reserved and carried no value on the balance sheet.

### **Valuation of Long-Lived Assets**

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 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.

### **Stock Compensation**

Prior to fiscal 2006, we accounted for stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25. Effective January 1, 2006, we adopted the provisions of SFAS 123(R) using the modified-prospective-transition method. SFAS 123(R) requires companies to recognize the fair-value of stock-based compensation transactions in the statement of income. The fair value of our stock-based awards is estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes valuation calculation requires us to estimate key assumptions such as future stock price volatility, expected terms, risk-free rates and dividend yield.



Expected stock price volatility is based on implied volatility from traded options on our stock in the marketplace and historical volatility of our stock. We use historical data to estimate option exercises and employee terminations within the valuation model.

The expected term of options granted is derived from an analysis of historical exercises and remaining contractual life of stock options, and represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. We have never paid cash dividends, and do not currently intend to pay cash dividends, and thus have assumed a 0% dividend yield. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little stock-based compensation cost. In addition, we are required to estimate the expected forfeiture rate of our stock grants and only recognize the expense for those shares expected to vest. If the actual forfeiture rate is materially different from our estimate, our stock-based compensation expense could be materially different.

#### **Off Balance Sheet Arrangements**

We have no off balance sheet arrangements, nor do we have any special purpose entities.

### **RISK FACTORS**

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. 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, except as may be required by law.

Aside from those risks discussed below, there have been no material changes to the risk factors included in our Annual Report on Form-KSB, as amended, for the fiscal year December 31, 2006.

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

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

As of March 31, 2007, we had stockholders' equity of approximately \$2.2 million, an accumulated deficit of approximately \$16.4 million and working capital of approximately \$1.7 million. We had a net loss of approximately \$712,800 for the three months ended March 31 2007. In the fiscal year ended December 31, 2006, we recorded net loss of approximately \$3.0 million. We will need to generate revenue to sustain profitability and positive cash flow. Our ability to generate future revenue and sustain profitability depends on a number of factors, many of which are described throughout this risk factor section, including our ability to develop and generate revenues from the sales of our sensor and medical device products, which are at a very early stage of development. We cannot assure you when, if ever, we will generate meaningful revenues from the sales of these products under development. If we are unable to achieve and sustain profitability, the Company's share price would likely decline.

#### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This document and the documents incorporated by reference herein contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Also, Apogee's management may make forward-looking statements orally or in writing to investors, analysts, the media and others. Forward-looking statements express our expectations or predictions of future events or results. They are not guarantees and are subject to many risks and uncertainties. There are a number of factors that could cause actual events or results to be significantly different from those described in the forward-looking statements. Forward-looking statements might include one or more of the following:

- anticipated financing activities;
- anticipated strategic alliances or arrangements with development or marketing partners;
- anticipated research and product development results;
- projected development and commercialization timelines;
- descriptions of plans or objectives of management for future operations, products or services;

- forecasts of future economic performance; and
- descriptions or assumptions underlying or relating to any of the above items.

19

---

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts or events. They use words such as anticipate, estimate, expect, project, intend, opportunity, plan, potential, believe or words of similar meaning. They may use words such as will, would, should, could or may.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, we do not assume responsibility for the accuracy and completeness of such statements. We do not intend to update any of the forward-looking statements after the date of this report to conform such statements to actual results except as required by law. Given these uncertainties, you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. You should carefully consider that information before you make an investment decision. You should review carefully the risks and uncertainties identified in this report and in the Company's Annual Report on Form 10-KSB, as amended.

### **ITEM 3 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 13a-15(e) and 15d-15(e)) as of the end of the period covered by 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 changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1 - LEGAL PROCEEDINGS**

From time to time, Apogee may be a party to various legal proceedings arising in the ordinary course of its business. If and when these proceedings arise, Apogee is committed to vigorously defending itself in any such legal actions.

On March 29, 2007 Apogee received a complaint, which had been filed at the Superior Court in Norfolk County, Massachusetts, entitled *Michael S. Danielson v. Apogee Technology, Case No. 0700512*. A former Apogee employee initiated the complaint alleging, among other things, that Apogee failed to pay certain bonuses and retirement contributions in connection with a compensatory arrangement concerning the development of certain digital amplifier technology. The former employee claims unpaid compensation of approximately \$155,000 and the request for relief asks for the amount to be trebled, and include costs and attorneys' fees. The management of Apogee believes the former employee's claim to be without merit and the Company will defend itself vigorously against all of the claims asserted in this legal action.

### **ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3 - DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5 - OTHER INFORMATION**

None.

**ITEM 6 - EXHIBITS**

(a) Exhibits:

See Exhibit Index

20

---

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**APOGEE TECHNOLOGY, INC.**

Date: May 15, 2007

By: /s/ Herbert M. Stein  
Name: Herbert M. Stein  
Title: Chairman of the Board,  
President, Chief Executive Officer  
(principal executive officer)

**APOGEE TECHNOLOGY, INC.**

Date: May 15, 2007

By: /s/ Paul J. Murphy  
Name: Paul J. Murphy  
Title: Chief Financial Officer and Vice President of Finance  
(principal financial officer and principal accounting officer)

FORM-10-QSB

MARCH 31, 2007

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 31.1                      | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.                        |
| 31.2                      | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.                        |
| 32                        | Statement pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer and Chief Financial Officer. |

22

---