APOGEE TECHNOLOGY INC
Form 10-Q
August 14, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2002

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

For the transition period from to

Commission file number 000-30656

APOGEE TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

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

129 MORGAN DRIVE, NORWOOD, MASSACHUSETTS 02062
(Address of principal executive offices)

(781) 551-9450
(Issuer's telephone number, including area code)

NOT APPLICABLE.
(Former name, former address and former fiscal year, if changed since last report)

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

State the number of shares of each of the Issuer's classes of common equity, as of the latest practicable date: As of August 12, 2002, there were 5,232,251 shares of Common Stock, $.01 par value per share, outstanding.

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

APOGEE TECHNOLOGY, INC.

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

2

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2002	DECEMBER 31, 2001
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	$ **844,852**	$ 2,387,178
Accounts receivable, net of allowance for doubtful accounts of $15,000 in 2002 and $5,000 in 2001	**1,383,759**	232,555
Inventories	**297,720**	420,047
Prepaid expenses	**44,880**	51,870

	JUNE 30, 2002	DECEMBER 31, 2001
Total current assets	**2,571,211**	3,091,650
Property and equipment, net of accumulated depreciation of $259,019 in 2002 and $217,491 in 2001	**152,724**	177,650
Other assets		
Digital amplifier patents, net of accumulated amortization of $75,371 in 2002 and $68,157 in 2001	**81,602**	55,451
	$ 2,805,537	$ 3,324,751
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	**$ 974,429**	$ 529,709
Current maturities of capital lease obligations	**25,166**	33,128
Total current liabilities	**999,595**	562,837
Capitalized lease obligations net of current maturities	**10,081**	19,976
Total liabilities	**1,009,676**	582,813
Stockholders' equity		
Common stock, $.01 par value; 20,000,000 shares authorized, 5,242,251 and 5,213,051 issued and outstanding in 2002 and 2001, respectively	**52,422**	52,130
Additional paid-in capital	**12,831,706**	12,799,146
Accumulated deficit	**(11,088,267)**	(10,109,338)
Total stockholders' equity	**1,795,861**	2,741,938
	$ 2,805,537	$ 3,324,751

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

3

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
Revenues				
Product sales	**$ 1,059,452**	$ 18,539	**$ 1,345,501**	$ 31,079
License fee				1,420,000
Royalties	**278,969**	62,500	**400,934**	125,000

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
Consulting	**26,471**	27,000	**39,871**	52,000
	1,364,892	108,039	**1,786,306**	1,628,079
Costs and expenses				
Product sales	**705,586**	15,283	**918,243**	20,271
Research and development	**405,627**	253,882	**798,839**	532,269
Selling, general and administrative	**470,799**	431,831	**1,062,445**	822,397
	1,582,012	700,996	**2,779,527**	1,374,937
(Loss) income before other income (expense)	**(217,120)**	(592,957)	**(993,221)**	253,142
Other income (expense)				
Interest expense	**(1,628)**	(2,842)	**(3,714)**	(6,000)
Interest income	**8,816**	15,226	**18,006**	33,459
	7,188	12,384	**14,292**	27,459
Net (loss) income	**(209,932)**	(580,573)	**(978,929)**	280,601
Accumulated deficit beginning	**(10,878,335)**	(8,353,578)	**(10,109,338)**	(9,214,752)
Accumulated deficit ending	**$ (11,088,267)**	$ (8,934,151)	**$ (11,088,267)**	$ (8,934,151)
Basic and diluted (loss) income per common share	**$ (0.04)**	$ (0.12)	**$ (0.19)**	$ 0.06
Weighted average common shares outstanding basic and diluted	**5,241,229**	4,986,019	**5,232,577**	4,983,783

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

4

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

	SIX MONTHS ENDED JUNE 30,	
	2002	**2001**
Cash flows from operations		
Net (loss) income	**$ (978,929)**	$ 280,601
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	**10,000**	25,000

	SIX MONTHS ENDED JUNE 30,	
Depreciation and amortization	**48,742**	46,724
Changes in operating assets and liabilities:		
Accounts receivable	**(1,161,204)**	(73,421)
Inventories	**122,327**	(101,386)
Prepaid expenses	**6,990**	87,396
Accounts payable and accrued expenses	**444,720**	18,963
Deferred revenue		128,000
Net cash (used in) provided by operating activities	**(1,507,354)**	411,877
Cash flows from investing activities		
Purchases of property and equipment	**(16,603)**	(36,200)
Patent costs	**(33,364)**	(16,732)
Net cash used in investing activities	**(49,967)**	(52,932)
Cash flows from financing activities		
Proceeds from issuances of common stock	**32,852**	8,300
Repayment of capital lease obligations	**(17,857)**	(12,161)
Net cash provided by (used in) financing activities	**14,995**	(3,861)
(Decrease) increase in cash and cash equivalents	**(1,542,326)**	355,084
Cash and cash equivalents beginning	**2,387,178**	1,131,246
Cash and cash equivalents ending	**$ 844,852**	$ 1,486,330

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 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 six month period ended June 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.

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 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 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 substantial doubt as to the Company's ability to continue as a going concern. The Company believes that its current working capital should be sufficient to fund its capital and operational requirements at least through December 31, 2002. The Company plans to raise additional capital to further commercialize its digital amplifier (DDX) technology. 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. 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:

	June 30, 2002 (Unaudited)	December 31, 2001
Raw materials	$ 28,107	$ 27,484
Work in process		14,779
Finished goods	269,613	377,784
	$ 297,720	$ 420,047

3. Stock Transactions

During the three months ended June 30, 2002, 6,200 shares of common stock were issued as a result of exercised stock options. The average exercise price was $.78 per share.

The Company also issued 8,000 shares of common stock as a result of exercised warrants during the quarter. The exercise price was $2.50 per share.

4. Stock Options

During the three months ended June 30, 2002 the Board of Directors awarded options to purchase 107,000 shares at prices ranging from $11.00 to $12.45 per share, to certain employees and directors. These options were granted under the 1997 Employee, Director and Consultant Incentive Stock Option Plan. The options vest over five years beginning at the first anniversary of the date of grant.

5. License Agreement

In February 2001, the Company entered into a license agreement with STMicroelectronics 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 advance notice 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 the future development activities occur. When the $400,000 amount is recognized in income, it will simultaneously be charged to research and development costs.

6. Customer Concentration

During the three-month period ending June 30, 2002 approximately 87% of the Company's product sales was derived from three customers.

Four of the Company's major customers accounted for approximately 90% of the total accounts receivable balance at June 30, 2002.

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 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, the 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. 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		Six month period ended June 30,
	March 31,	June 30,	
Revenues	$ 421,414	$ 1,364,892	$ 1,786,306
Cost and expenses	1,197,515	1,582,012	2,779,527
Other income	7,104	7,188	14,292
Net loss	(768,997)	(209,932)	(978,929)
Basic and common diluted loss per common share	(0.15)	(0.04)	(0.19)

	2001		
	Three month periods ended		Six month period ended June 30,
	March 31,	June 30,	

	2001		
Revenues	$ 1,520,040	$ 108,039	$ 1,628,079
Cost and expenses	673,941	700,996	1,374,937
Other income	15,075	12,384	27,459
Net income (loss)	861,174	(580,573)	280,601
Basic and common diluted income			
(loss) per common share	0.17	(0.12)	0.06

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 six month periods ended June 30, 2002 and June 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, or integrated circuits (ICs), that incorporate the company's patented Direct Digital Amplification (DDX®) technology. DDX-based IC products are intended for 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 four 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 boards. The Company has incurred a net loss of approximately $979,000 for the six months ended June 30, 2002, as compared to a net profit of approximately $281,000 for the six months ended June 30, 2001. The net profit for the six month period ended June 30, 2001 was as result of the one-time, initial fee paid in connection with the Company's licensing agreement with ST. As of June 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 it discontinued in 1994. The Company's historical net losses and accumulated deficit (since 1995) result primarily from the costs associated with the Company's efforts to develop and market its DDX technology.

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

During the three-month period ended June 30, 2002, three customers represented, in the aggregate, approximately 87% of total revenue. The Company utilizes a network of independent sales representatives and distributors worldwide to support the Company's sales and marketing activities. During the second quarter ended June 30, 2002, the Company opened a sales office in Hong Kong and retained a sales representative for South America.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data for the three- and six-month periods ended June 30, 2002 and June 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 June 30, 2002	For the three-month period ended June 30, 2001	For the six-month period ended June 30, 2002	For the six-month period ended June 30, 2001
Statement of Operations Data:				
Revenue	$ 1,364,892	$ 108,039	$ 1,786,306	$ 1,628,079
Cost and expenses	1,582,012	700,996	2,779,527	1,374,937
Other income (expense)	7,188	12,384	14,292	27,459
Net Loss	$ (209,932)	$ (580,573)	$ (978,929)	$ 280,601
Shares Outstanding			5,242,251	4,994,623
Balance Sheet Data:				
Total assets			$ 2,805,537	$ 1,951,263
Stockholders' equity			$ 1,795,861	$ 1,486,292
Loss per share (basic and diluted)	$ (0.04)	$ (0.12)	$ (0.19)	$ 0.06

RESULTS OF CONTINUING OPERATIONS OF THE COMPANY

Revenues

Revenues were approximately $1.4 million and $1.8 million for the three months and six months ended June 30, 2002 compared to approximately $108,000 and $1.6 million for the same periods in 2001. Revenue for the three and six months ended June 30, 2001 primarily consisted of the one-time, initial fee paid in connection with the Company's licensing agreement with ST. Year-to-date this represents an increase of 10% over the six month period ended June 30, 2001. The increase in the three and six months ended June 30, 2002 from the same periods in 2001 was primarily due to increased sales of Apogee's semiconductor products and increased royalties under the Licensing Agreement with ST. During the six months and three months ended June 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 $1.1 million to $1.1 million from $18,500 for the three-month period ended June 30, 2002 compared to the three-month period ended June 30, 2001, and by approximately $1.3 million to $1.3 million from $31,000 for the six-month period ended June 30, 2002 compared to the six-month period ended June 30, 2001. This increase in Product Revenue was primarily due to growth in the sales of the Company's semiconductor products. Revenue from non-product related items accounted for approximately 22% and 25% of total revenue for the three and six months ended June 30, 2002, compared to revenue for non-product related items of approximately 83% and 98% of total revenue for the same periods in 2001. During the three months and six months ended June 30, 2002, the Company recorded net royalty payments under the ST agreement of approximately $279,000 and $401,000, compared to royalty payments of $62,500 and $125,000 for the same periods in 2001, representing a increase of 346% and 221% for the respective periods.

Cost of Revenue

Cost of revenue was approximately $705,000 and $918,000 for the three months and six months ended June 30, 2002 compared to approximately $15,000 and $20,000 for the same periods in 2001. Cost of Revenue includes cost of purchasing finished semiconductor chips and costs associated with assembly, test and shipping of those products. This increase in the cost of revenue is primarily

10

attributable to costs relating to increased sales of the Company's semiconductor products. The Company anticipates that the cost of revenue will continue to increase in dollar amounts as the Company supports expected increases in sales. For the three months and six months ended June 30, 2002, the Company recorded a gross profit on product sales of 33% and 32%, respectively. Since revenue for the three months and six months ended June 30, 2001 primarily consisted of the one-time license fee paid by STMicroelectronics, gross profit on product sales was not calculated.

Research and Development ("R&D") Expenses

Engineering and development expenses consisted 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 $406,000 and $799,000 for the three months and six months ended June 30, 2002, compared to approximately $254,000 and $532,000 for the same periods in 2001. This increase of approximately 60% and 50%, 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 $312,000 and $618,000 from $226,000 and $472,000 for the three months and six months ended June 30, 2002, an increase of approximately 38% and 31%, respectively. For the three months and six months ended June 30, 2002, third party consultants accounted for approximately $54,000 and $109,000 of total research and development costs. During the three months and six months ended June 30, 2001, the Company had only minimally used third party consultants. The overall increase reflects the Company's expanded research and development activity as evidenced by the employment of seventeen employees as of June 30, 2002, an increase of two from the prior quarter and five from June 30, 2001. During the three months ended June 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 of its customers from product design through deployment into the market. 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 consisted 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 included costs related to operation of the Hong Kong sales office, opened in April 2002. General and administrative costs consisted primarily of executive and administrative salaries, professional fees and other associated corporate expenses. SG&A expenses were approximately $471,000 and $1,062,000 for the three and six months ended June 30, 2002 compared to $432,000 and $822,000 for the same periods in 2001, an increase of approximately 9% and 29%, respectively. Human resource costs increased approximately 55% and 132% to approximately $135,000 and $357,000 during the three months and six months ended June 30, 2002 compared to $87,000 and $154,000 during the same periods in 2001. This increase is primarily due to higher compensation associated with additional employees. 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 and the hiring of three employees to support the Hong Kong operations during the second quarter of 2002. In addition, the company utilizes a sales consultant based in Taiwan to support the sales effort in the Far East. Travel expense for the three months and six months ended June 30, 2002 were approximately $59,000 and $118,000, compared to approximately $31,000 and $74,000 for the same period last year, an increase of approximately $28,000 or 91% and $44,000 or 59% over the same periods in 2001.This increase was primarily due to increased travel to the Far East predominantly for customer design and support. Professional expenses decreased approximately $100,000 or 55% and $47,000 or 16% for the three months and six months ended June 30, 2002 to

approximately $83,000 and $253,000 from approximately $183,000 and $300,000 for the three months and six months ended June 30, 2001. For the three months and six months ended June 30, 2002, combined legal and accounting expenses accounted for approximately $49,000 and $194,000, compared to $167,000 and $248,000 for the three months and six months ended June 30, 2001, a decrease of 71% and 22%, respectively. This decrease in both the three months and six months was partially attributable to the Company's completion of relisting on the NASDAQ SmallCap Market during Fiscal 2001. We expect 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 six months ended June 30, 2002, the Company generated net interest income of approximately $7,000 and $14,000 compared to net interest income of approximately $12,000 and $27,000 during the same periods in 2001. The decrease in non-operating income over the three-month and six-month periods ended June 30, 2002 was primarily due to use of funds and lower interest rates on cash and short-term investments.

Net Loss

The Company's net loss for the three months and six months ended June 30, 2002 was approximately $210,000, or $.04 per basic and diluted common share and $979,000, or $.19 per basic and diluted common share, respectively, compared to a loss of approximately $581,000, or $.12 per basic and diluted common share and a net profit of $281,000 or $.06 per basic and diluted common share, respectively for the three and six month period ended June 30, 2001. The net profit for the six month period ended June 30, 2001 was as result of the one-time, initial fee paid in connection with the Company's licensing agreement with ST.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity at June 30, 2002 consisted of approximately $845,000 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 the working capital requirements of the Company.

Net cash used in operations during the six month period ended June 30, 2002 was approximately $1,507,000 compared to approximately $412,000 provided by operations in the six month period ended June 30, 2001. As of June 30, 2002, inventory was approximately $298,000 compared to inventory of approximately $101,000 as of June 30, 2001. Accounts receivable (net of allowance for doubtful accounts of $15,000) was approximately $1,384,000 at June 30, 2002, up from approximately $103,000 as of June 30, 2001. This increase in accounts receivable was primarily due to increased shipments of the Company's semiconductor products during the second quarter of 2002. As of June 30, 2002, four major customers accounted for approximately 90% of the total accounts receivable balance. The Company increased its reserve against bad debt to $15,000 as of June 30, 2002 from $5,000 as of December 31, 2001. The Company believes this reserve is sufficient at this time as a majority of the large receivables are secured by letters of credit.

Net cash used in investing activities for the six months ended June 30, 2002 was approximately $50,000, compared to approximately $53,000 for the six months ended June 30, 2001. This decrease was due to decreased capital spending.

Net cash provided by financing activities totaled approximately $15,000, compared to approximately $4,000 used in financing during the same period in 2001. During the six-month period ended June 30,

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2002, the Company received approximately $33,000 in cash from the exercise of options by three employees and the exercise of warrants by one investor.

The Company's Financial Statements set forth in Item 1 of this Quarterly Report on Form 10-QSB have been prepared assuming the Company will continue as a going concern. The Company believes that its current working capital should be sufficient to fund its capital and operational requirements at least through December 31, 2002. The continuance of the Company in the long term is dependent upon its ability to successfully develop and market its DDX digital amplifier technology and raise additional funds for such purposes. The Company is presently pursuing the raising of additional equity capital. There can be no assurance, however, that the Company will be able to raise the funds that it needs to continue its operations in the long term or that additional funds will be available to the Company on acceptable terms, if at all. The Financial Statements set forth in Item 1 hereof do not include any adjustments that might result from the outcome of this uncertainty.

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 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities". FAS No. 133, as amended by SFAS No. 137 and 138, establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. FAS 133 is required to be adopted in fiscal years beginning after June 15, 2000. The Company adopted FAS No. 133 effective January 1, 2001. The adoption of FAS No. 133 did not have a material impact on the Company's results of operations or financial position.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 (FAS 142), "Goodwill and Other Intangible Assets". FAS No. 142 is required to be adopted in fiscal years beginning subsequent to December 15, 2001. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of the statement. The adoption of FAS No. 142 did not have a material impact on the Company's results of operations or financial position.

In August 2001, the Financial Accounting Standards Board issued Statement No. 144 (FAS 144), "Impairment of Long-Lived Assets". FAS No. 144 is required to be adopted in fiscal years beginning subsequent to December 15, 2001. FAS 144 requires, in cases where undiscounted expected cash flows associated with long-lived assets are less than their carrying value, the recognition of an impairment provision in an amount by which the carrying value exceeds the estimated fair market value of such assets. The adoption of FAS No. 144 did not have a material impact on the Company's results of operations or financial position.

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 June 30, 2002, we had an accumulated deficit of approximately $11.1 million. Of this deficit, 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 $979,000 for the six months ended June 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 six months ended June 30, 2002, the Company derived approximately 87% of its total revenues from three 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

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

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 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 June 30, 2002 our executive officers and directors owned approximately fifty-eight percent (58.13%) 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.

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

Not applicable.

ITEM 2 CHANGES IN SECURITIES

During the three months ended June 30, 2002, 6,200 shares of the Company's Common Stock were issued as a result of the exercise of certain options pursuant to the 1997 Employee, Director and Consultant Stock Option Plan (the "Plan"). The average exercise price was $0.78 per share.

In April 2002, 8,000 shares of Common Stock were issued to an investor as a result of the exercise of warrants issued pursuant to a Stock Subscription Agreement in a private placement dated January 25, 2000. Exercise price for these shares was $2.50 per share. The exemption from registration relied upon was Section 4(2) of the Securities Act of 1933, as amended.

On April 1, 2002, the Company granted options to an employee to purchase up to 12,000 shares of the Company's Common Stock at an exercise price of $11.05 per share, under the Plan.

On April 3, 2002, the Company granted options to an employee to purchase up to 50,000 shares of the Company's Common Stock at an exercise price of $11.00 per share, under the Plan.

On May 1, 2002, the Company granted options to an employee to purchase up to 10,000 shares of the Company's Common Stock at an exercise price of $12.45 per share, under the Plan.

On May 10, 2002, the Company granted options to three directors to purchase up to 10,000 each of shares of the Company's Common Stock at an exercise price of $12.44 per share, under the Plan.

On June 10, 2002, the Company granted options to an employee to purchase up to 5,000 shares of the Company's Common Stock at an exercise price of $11.55 per share, under the Plan.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of the Company was held on May 10, 2002. The following matters were voted upon:

(1) Mr. Alan Tuck was elected by more than a majority to serve as a Director of the Company to hold office until the annual meeting of the Corporation in 2005.

(2) The shareholders approved an increase in the aggregate number of shares for which stock options may be granted under the Plan from 1,050,000 to 1,550,000 shares. This proposal was approved with 3,796,261 votes for the proposal, 7,185 votes against the proposal, no abstentions and 761,453 broker non-votes.

(3) The shareholders ratified the appointment of Yohalem Gillman & Company, LLP as independent public accountants for the Company. This proposal was approved with 4,559,008 votes for the proposal, 2,490 votes against the proposal, and 3,400 abstentions and no broker non-votes.

ITEM 5 OTHER INFORMATION

None.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

See Exhibit Index

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed in the three months ended June 30, 2002.

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: August 14, 2002	By: /s/ HERBERT M. STEIN Name: Herbert M. Stein Title: President and Chief Executive Officer
Date: August 14, 2002	By: /s/ DAVID SPIEGEL Name: David Spiegel Title: Treasurer (principal financial officer and principal accounting officer)

EXHIBIT INDEX

Exhibit Number	Description

99.1	Certification under Section 906 of the Sarbanes-Oxley Act of 2002.

QuickLinks