

APOGEE TECHNOLOGY INC  
Form 10KSB/A  
April 27, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-KSB/A**

**Amendment No. 1**

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**APOGEE TECHNOLOGY, INC.**

(Exact name of registrant as specified in its charter)

Commission File No: **001-10456**

**DELAWARE**  
(State or other jurisdiction  
of incorporation or organization)  
**129 MORGAN DRIVE**  
**NORWOOD, MASSACHUSETTS**  
(Address of principal executive offices)

**04-3005815**  
(I.R.S. Employer Identification No.)

**02062**  
(Zip Code)

Registrant's telephone number, including area code: **(781) 551-9450**

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class

Common Stock, \$.01 Par Value Per Share

Name of each exchange  
on which registered

American Stock Exchange

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

## Edgar Filing: APOGEE TECHNOLOGY INC - Form 10KSB/A

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act:

Check whether issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

State issuer's revenue for the most recent year: \$1.9 million

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on March 15, 2007, based on the last sale (closing) price of the common stock on the American Stock Exchange of \$1.35 per share on such date was \$9,689,936.

The number of outstanding shares of the registrant's Common Stock, \$.01 par value, as of March 15, 2007 was 11,968,331.

### **DOCUMENTS INCORPORATED BY REFERENCE**

None.

Transitional Small Business Disclosure Format: Yes  No

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-KSB/A (the Amended Report ) amends the original Annual Report on Form 10-KSB of Apogee Technology, Inc. for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission, or the SEC, on March 29, 2007 (the Original Report ), to amend certain information regarding Apogee s legal proceedings, add a risk factor regarding litigation in general, make several immaterial amendments for minor typographical and printing errors, and add certain information required by the following items of Form 10-KSB:

<b>Item</b>	<b>Description</b>
ITEM 9.	Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act.
ITEM 10.	Executive Compensation.
ITEM 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
ITEM 12.	Certain Relationships and Related Transactions, and Director Independence.
ITEM 13.	Exhibits.
ITEM 14.	Principal Accountant Fees and Services.

We hereby amend and restate Items 9, 10, 11, 12, 13 and 14 of Part III of our Original Report by deleting the text of such Items 9, 10, 11, 12, 13 and 14 in their entirety and replacing them with the information provided below under the respective headings in Part III. Other than those items discussed in this *EXPLANATORY NOTE*, the Amended Report does not affect any other items in our Original Report. As this amendment does not impact our financials, we are only filing as exhibits to this Amended Report updated certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Except as otherwise expressly stated for the items newly included or amended in this Amended Report, this Amended Report continues to speak as of the date of the Original Report, and we have not updated the financial disclosure or other disclosures contained herein to reflect events that have occurred since the filing of the Original Report. Accordingly, this Amended Report should be read in conjunction with our Original Report and our other filings made with the SEC subsequent to the filing of the Original Report.

**PART I**

**Item 3. 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, contemporaneous with the filing of the Original Report, 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.

**PART II**

**Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

**THE FOLLOWING DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED ELSEWHERE IN THE ORIGINAL REPORT ON FORM 10-KSB. 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 FACTORS DISCUSSED ABOVE IN THE SECTION BELOW ENTITLED "RISK FACTORS" AS WELL AS OTHER FACTORS IN THE ORIGINAL REPORT AND THIS AMENDED REPORT.**

**OVERVIEW**

Apogee designs, develops and commercializes advanced intradermal and dermal drug delivery and sensor solutions based upon its proprietary Micro-Electro Mechanical Systems ( MEMS ), nano fabrication and drug delivery technologies. Our Medical Products Group is developing advanced intradermal drug delivery systems to meet the needs of patients, health insurers, companies developing pharmaceuticals, as well as, governments and international health organizations. We are in preclinical development of our PyraDerm® intradermal drug system, which we believe has significant advantages over competitive approaches for the delivery of vaccines, low dose high potency therapeutic protein drugs and other 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 in the near future. We are working to establish pharmaceutical industry compliant manufacturing methods and to define regulatory strategies to support its commercialization. Our business strategy is flexible and includes: (i) the 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 (with outsourcing assistance) 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.

In 2006, the majority of our revenue was derived from the sale of the remaining DDX IC inventory, primarily as a result of the recognition of all the deferred distributor revenue. 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 December 31, 2006, we had an accumulated deficit of approximately \$15.7 million, as compared to a deficit of \$12.7 million as of December 31, 2005. 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.

### Results of Operations

The following table sets forth financial statement data expressed as a percentage of sales:

	Fiscal Year Ended			
	December 31,		2005	
	2006		2005	
Product Sales	99.93	%	87.04	%
Royalties	0.07		9.29	
Consulting			3.67	
Cost of Sales	(71.70	)	(76.68	)
Research and Development	(91.48	)	(52.38	)
Selling, General and Administrative	(124.65	)	(77.61	)
Operating Loss	(187.83	)%	(106.67	)%
Other Income (Expense)*	30.20		163.64	
Net Loss	(157.63	)%	57.07	%

\* Includes approximately \$8.9 million in gain on sale of assets to SigmaTel, Inc. on October 5, 2005.

### 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. 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 and thus do not have related inventory. For the fiscal year ended December 31, 2006 we have approximately \$1.8 million of audio IC inventory that has been 100% reserved and has no carrying value on the balance sheet. This compares to inventory at December 31, 2005, net of reserves, of approximately \$1.3 million consisting of \$719,000 held at distributors with the remaining \$609,000 held at Apogee.

### **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.

### **Year Ended December 31, 2006 Compared to Year Ended December 31, 2005**

#### **Revenue**

We derive 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 is 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.



Apogee recognized revenue for the fiscal year ended December 31, 2006 of approximately \$1.9 million, a decrease of \$3.3 million or 64% from revenue recognized in 2005 of approximately \$5.2 million. This decline in revenue is directly related to the sale of certain assets of the audio division, including the DDX® technology and the associated royalties to SigmaTel in October 2005. Product sales consisted of semiconductor products sold directly to end users or POS revenue by our distributors. Subsequent to the transaction with SigmaTel, we no longer recognize, or are eligible to receive, royalties under the ST Licensing Agreement. As a result, no royalty revenue was recorded for the fiscal year ended December 31, 2006 under the ST Licensing Agreement. For the fiscal year ended December 31, 2006, we did, however, record royalty revenue of \$1,250 as a result of an agreement with QSound Labs, Inc. For the fiscal year ended December 31, 2005 we recognized royalty revenue of approximately \$480,000, primarily related to the ST Licensing Agreement. Apogee did not earn any consulting revenue for the fiscal year ended December 31, 2006 compared to approximately \$190,000 for the fiscal year ended December 31, 2005.

Total revenue for the years 2006 and 2005 consisted of:

	For the Fiscal Year Ended	
	December 31,	
	2006	2005
Product Revenue	\$ 1,883,534	\$ 4,502,333
Royalties	1,250	480,468
Consulting		190,000
Total:	\$ 1,884,784	\$ 5,172,801

Some revenue from the sale of DDX products is expected to continue over the short term as the remaining DDX inventory is sold. In addition, licensing revenue from the ST Licensing Agreement has been assigned to SigmaTel in conjunction with the sale of certain DDX assets to SigmaTel. Accordingly, 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 approximately \$1.4 million for the fiscal year ended December 31, 2006, compared to approximately \$4.0 million for the fiscal year ended December 31, 2005. Cost of revenue from our former DDX business primarily consists of purchasing finished semiconductor chips and storage fees associated with warehousing a large portion of our semiconductor products in Asia. For the 12 months ended December 31, 2006 we recorded a gross margin from product revenue of approximately 28%, compared to a gross margin of approximately 23% for the 12 months ended December 31, 2005. This increase in gross margin from product revenue was due to an adjustment to Cost of Goods for recovery of previous reserve provision.

During the twelve months ended December 31, 2006 we recorded a net recovery of previous provisions of approximately \$117,000 to adjust for current inventory levels. For the fiscal years ended December 31, 2006 and 2005, the Company wrote off approximately \$11,000 and \$44,000, respectively, of obsolete inventory.

#### Operating Expenses

##### Research and Development Costs

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

\$1.7 million for the 12 months ended December 31, 2006, compared to approximately \$2.7 million for the prior fiscal year. This decrease of approximately \$1.0 million or 36% was the result of the transaction with SigmaTel and the transfer of our audio related R&D staff to SigmaTel. Human resource costs decreased by approximately \$1.1 million or 62% to approximately \$694,000 for the twelve months ended December 31, 2006, compared to approximately \$1.8 million for the same period in 2005. For the fiscal year ended December 31, 2005, human resource costs associated with our former audio division were approximately \$1.4 million. Although our overall human resource expense was reduced, we continue to support both our medical and sensor groups and anticipate that human resource expense associated with R&D will increase in the coming quarters. For the 12 months ended December 31, 2006, approximately \$39,000 in human resource expense was a result of our adoption of SFAS 123(R) effective as of January 1, 2006.

During the fiscal year ended December 31, 2006 essentially all our \$1.7 million in R&D in expense was associated with the development of our medical and sensor products, compared to approximately \$1.0 million for the 12 months ended December 31, 2005. In an effort to support and expand the development of both our medical device and sensor products, we incurred approximately \$531,000 in professional fees for the 12 months ended December 31, 2006 compared to approximately \$295,000 for the same period in 2005. This represents an increase of approximately \$235,000 or 80%. In addition, due to the technical nature of both the medical device and sensor components, for the 12 month-period ended December 31, 2006 we incurred approximately \$264,000 in developmental wafer costs as well as developmental costs associated with our micro needle project. This represents an increase of approximately \$207,000 or 366% for the same period in 2005. Of this amount we expensed approximately \$146,000 in wafers related to our sensor business. We will continue to invest in the development of our medical and sensor products. During the fourth quarter of 2006 we completed most of the construction of our formulation and analytical laboratory at our Norwood headquarters to support our medical product research and development activities. The installation of the laboratory was completed in January 2007. Our investment in laboratory equipment and the associated renovation of our facility are estimated to be \$210,000. We expect that this new capability will allow us to have greater efficiency and productivity as well as better control of expenses. In January 2006, we consolidated our MEMS division to our home office in

Norwood, Massachusetts and closed our Long Island, New York office. We anticipate that we will continue to commit resources to research and development activities and R&D costs are expected to increase in the future.

#### **Selling, General and Administrative Costs**

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, Taiwan, China 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 \$1.7 million or 41% to approximately \$2.3 million for the twelve months ended December 31, 2006, compared to approximately \$4.0 million for the 12 months ended December 31, 2005. The decrease in SG&A, described below, was attributable primarily to the closing of the Hong Kong, Japanese and Taiwan offices as well as decreased selling and distribution costs, professional fees, travel and human resource costs partially offset by an increase in human resource costs as a result of our adoption of SFAS 123(R).

Human resource costs decreased by approximately \$200,000 or 16% to approximately \$1.3 million for the 12 months ended December 31, 2006, compared to approximately \$1.5 million for the twelve months

ended December 31, 2005. This decrease was partially offset by the inclusion of the stock based compensation expense as a result of our adoption of SFAS 123(R). With our adoption of SFAS 123(R), the human resource expense for the twelve months ended December 31, 2006 was increased by approximately \$254,000. This decrease, net of stock based compensation expense, reflects the reduction in staffing and subsequent closing of the Taiwan office in 2005, the Hong Kong office in February 2006 and the Japanese office in July 2006, as a result of the sale of the audio division to SigmaTel, Inc. in October 2005. As of December 31, 2006, Apogee employed a total of 12 employees, all operating out of our Norwood office. As of December 31, 2005 we employed a total of 12 employees, 10 domestically with 1 employee each in our Hong Kong and Japanese offices. However, prior to the sale of the audio business to SigmaTel in October 2005, we had 36 employees.

Professional expenses decreased by approximately \$899,000 or 60% to approximately \$569,000 for the twelve months ended December 31, 2006, compared to approximately \$1.5 million for the twelve months ended December 31, 2005. Of this decrease approximately \$471,000 or 52% was the result of decreased legal and accounting fees as a result of becoming compliant with our filings required by the Securities Exchange Act of 1934, as amended, and the completion of the Audit Committee's investigation and subsequent restatement of Apogee's financial statements. This decrease was partially offset by an increase in legal fees associated with the indemnification costs, 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, which were approximately \$218,000 for the 12 months ended December 31, 2006 compared to approximately \$60,000 for the 12 months ended December 31, 2005. See Footnote 12 of the financial statements Indemnification Arrangements with our Executives. For the 12-month period ended December 31, 2006, we incurred accounting expenses of approximately \$82,000, compared to accounting expenses of approximately \$424,000 for the prior fiscal year. A decrease in third party marketing consultants and recruiting fees accounted for the remainder of the decrease for the 12 months ended December 31, 2006.

Other expenses contributing to the decrease in SG&A were reduced international travel, closing of our overseas offices as well as reduced commissions and distribution expense. Travel expense decreased by approximately \$210,000 or 68% to approximately \$68,000 for the 12 months ended December 31, 2006, compared to approximately \$278,000 for the prior fiscal year. As a result of the audio division sale of assets to SigmaTel, we closed the Taiwan Office effective as of December 31, 2005, the Hong Kong Office effective as of February 28, 2006 and the Japanese Office effective as of July 21, 2006. Expenses associated with the Hong Kong Office, net of human resources were approximately \$14,000 for the 12 months ended December 31, 2006, compared to approximately \$130,000 for the 12 months ended December 31 2005. The other major contributor to the decrease in SG&A is the reduction in the distribution and commission expense directly related to the decrease in revenue resulting from the sale of the audio division to SigmaTel. Distribution and commission expense declined by approximately \$106,000 or 92% to approximately \$9,000 for the twelve months ended December 31, 2006, compared to approximately \$115,000 for the 12 months ended December 31, 2005.

Operating expenses are expected to increase in the future due to additional staffing to support our Sensor and Medical Product Groups.

#### **Interest and Other Income (Expense)**

Interest income includes income from Apogee's cash and cash equivalents. During twelve months ended December 31, 2006, we generated interest income of approximately \$198,000 compared to interest income of approximately \$70,000 the same period in 2005. This increase was primarily due to interest on the net cash received of approximately \$5.7 million as a result of the SigmaTel transaction. In addition, we received approximately \$800,000 from the SigmaTel earn-out and early release of the escrow.

No interest expense was incurred for the 12 months ended December 31, 2006. For the 12 months ended December 31, 2005, we incurred interest expense of approximately \$38,000 as a result of loans by Laurus in August 2005 and loans by Mr. Herbert M. Stein and Mr. David Spiegel in May 2005.

The approximately \$23,000 in other expense for the 12 months ended December 31, 2006 resulted from a loss on the disposal of fixed assets and additional expenses in connection with the SigmaTel transaction. No interest expense was incurred in 2006.

### **Financing Costs**

On August 11, 2005, Apogee entered into agreements with Laurus, whereby we received \$2.0 million in gross proceeds (with net proceeds of approximately \$1.8 million) through the sale of a 120 day secured term note. The note was payable by Apogee in cash during the first 120 days following the issuance of the note, and after the 120 day period it was payable in the amount of \$62,500 per month in cash or convertible into the common stock, \$0.01 par value per share, of the Company at a fixed conversion price of \$1.15 per share. Total expenses incurred in connections with this financing was approximately \$424,000 including approximately \$107,500 for due diligence and management fees, \$100,000 paid to Biscayne Capital Markets, Inc. who served as a finder for this transactions and approximately \$100,000 as a premium to Laurus with the remaining \$116,500 attributed to legal, escrow and other associated costs. The costs associated with this agreement are expected to drop as a result of the amendment to the warrants on December 5, 2005, which removed the registration rights associated with the securities issued in the financing. On October 5, 2005 proceeds from the SigmaTel transaction were used to repay the approximately \$2.0 million owed to Laurus Master Fund, Ltd.

### **Income Taxes**

Apogee incurred no state income taxes for the 12 months ended December 31, 2006 and approximately \$20,000 for the 12 months ended December 31, 2005. There was no federal income tax expense for either 2006 or 2005. As of December 31, 2006 and 2005, we had available a federal net operating loss carryforward of approximately \$9,796,000 and \$8,454,000, respectively and a state net operating loss carryforward of approximately \$3,069,500 and \$4,037,000, respectively. These net operating loss carryforwards will expire at various times between 2007 and 2025.

### **Liquidity and Capital Resources**

Our principal source of liquidity at December 31, 2006, consisted of approximately \$3.1 million in cash and cash equivalents with a working capital of approximately \$2.4 million. 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 4.94% at December 31, 2006. This compares to approximately \$5.5 million in cash and cash equivalents as of December 31, 2005. In addition, as of December 31, 2006, we had working capital of approximately \$2.4 million, compared to a working capital of approximately \$5.0 million at December 31, 2005. As of December 31, 2006 and December 31, 2005 we had no debt.

Net cash used in operating activities for the twelve-month period ended December 31, 2006 decreased to approximately \$3.0 million compared to approximately \$4.9 million in the twelve-month period ended December 31, 2005. The decrease was primarily due to a decrease in the net loss as a result of decreased spending following the SigmaTel transaction and the transfer of the DDX related engineering and sales staff. As of December 31, 2006, reserves for slow moving, excess and obsolete inventory was at 100% of the remaining DDX inventory. This compares to inventory, net of reserves, of approximately \$1.3 million as of December 31, 2005. Net accounts receivable was approximately \$11,000 at December 31, 2006 down from approximately \$153,000 at December 31, 2005. As of December 31, 2006 we had reserves against bad debt

of approximately \$13,000 compared to a reserve of \$145,000 as of December 31, 2005. Given the current accounts receivable we believe that the remaining reserve is sufficient at this time.

Net cash provided by investing activities for the twelve months ended December 31, 2006 was approximately \$523,000, compared to net cash provided by investing activities of \$8.5 million for the twelve months ended December 31, 2005. On October 5, 2005, Apogee completed a transaction with SigmaTel, whereby certain assets of the Audio division were sold, including the DDX technology and the associated royalties from its license agreement with ST, to SigmaTel for approximately \$8.6 million, net of certain transaction costs. Pursuant to the Escrow Agreement dated October 5, 2005 between SigmaTel and Apogee, \$420,000 was to be held in escrow for a period of eighteen months for the purpose of compensating purchaser pursuant to the indemnification.

No cash was provided by financing activities for the twelve months ended December 31, 2006 compared to approximately \$33,000 provided by financing activities for the twelve months ended December 31, 2005. During the twelve-month period ended December 31, 2005, we received the proceeds from unsecured interest bearing loans in the amounts of \$250,000 from David Spiegel, a shareholder and \$250,000 from Herbert Stein, Chief Executive Officer and Chairman of the Board. These loans were payable upon demand and were not subject to any premium or penalty for prepayment. The loan interest rate is 6% per annum, payable monthly in arrears on the outstanding balance. On August 11, 2005, the Company entered into agreements with Laurus Master Fund, Ltd., whereby we received \$2.0 million in gross proceeds (with net proceeds of approximately \$1.8 million) through the sale of a 120 day secured term note. The note was payable by the Company in cash during the first 120 days following the issuance of the note, and after a 120 day period it was payable in the amount of \$62,500 per month in cash or convertible into the common stock, \$0.01 par value per share, of the Company at a fixed conversion price of \$1.15 per share. In connection with the financing, we paid certain costs and expenses of Laurus and issued an immediately exercisable warrant for the purchase of 85,000 shares of common stock at a price of \$1.22 per share. The warrant expires seven years after issuance. A finder for the transaction received a fee of 5% of the gross proceeds of the offering, together with a seven year warrant to purchase an aggregate of 8,500 shares of common stock immediately exercisable at a price of \$1.22 per share. This offering was conducted as a private placement pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. With respect to the transaction with Laurus, the Company entered into an agreement to register the common stock underlying the warrants and the common stock that may be received upon any conversion of the secured term note. On December 5, 2005, the terms of the 85,000 common share warrants with Laurus were amended, whereby the registration rights associated with the warrant were terminated in consideration of a reduced exercise price, from \$1.22 to \$1.15, and the insertion of a cashless exercise provision. On October 5, 2005 proceeds from the SigmaTel transaction were used to repay the approximately \$2.0 million owed to Laurus Master Fund, Ltd. and the \$500,000 loans to Mr. Herbert Stein and Mr. David Spiegel, as well as payment of certain expenses related to the transaction. During the 12-month period ended December 31, 2005, we raised \$32,500 through the exercise of options by two employees.

We believe that cash flow from operations and the funds received from the audio division sale, as well as amounts that may be raised from time to time in private offerings of our common stock or debt financings will be sufficient to support operations and fund capital equipment requirements at least through December 31, 2007. The Company is currently in the process of securing funding as required by the Plan for Regaining Compliance with Sections 1003 (a) (ii) and 1003 (a) (iii) of the American Stock Exchange Company Guide (the Plan ) submitted to the American Stock Exchange ( AMEX ) on November 30, 2006 with a revised and more detailed Plan submitted on December 20, 2006 pursuant to notification from AMEX on November 1, 2006 that we were not in compliance with certain of the AMEX s continued listing standards. Subsequently, on January 12, 2007, Apogee was notified that they

had determined that, in accordance with Section 1009 of the Company Guide, the Company made a reasonable demonstration of its ability to regain compliance with the continued listing standards by the end of the plan period, which we have determined to be no later than November 1, 2007 and that at this time AMEX was prepared to continue the listing of Apogee subject to certain conditions. See Footnote 20 of the financial statements Notification from the American Stock Exchange.

## **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. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in the Original Report and this Amended Report. 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.

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

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

As of December 31, 2006, we had stockholders' equity of approximately \$2.9 million, an accumulated deficit of approximately \$15.7 million and working capital of approximately \$2.4 million. We had a net loss of approximately \$3.0 million for the twelve months ended December 31, 2006. In the fiscal year ended December 31, 2005, we recorded an operating loss of approximately \$5.5 million with a net profit of approximately \$3.0 million from a gain of approximately \$8.9 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.

#### **WE NEED TO RAISE ADDITIONAL CAPITAL IN ORDER TO CONTINUE TO PERFORM RESEARCH AND DEVELOPMENT AND OPERATE OUR BUSINESS, AND SUCH TRANSACTIONS MAY NOT BE AVAILABLE TO US ON FAVORABLE TERMS, IF AT ALL.**

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 and the sale of certain assets to SigmaTel. In order to continue to fund the development of our business, we will need additional capital, either through the sale of securities or through the sale of assets. We cannot be certain that any such financing or asset sales will be available on acceptable terms, or at all. Moreover, additional financing, if available, would likely be dilutive to the holders of our common stock, and debt financing, if available, would likely involve restrictive covenants. If we sell assets that are currently used in the conduct of our business, those assets would no longer be available to us as a potential source of revenue generation, as was the case with our October 5, 2005 sale of assets. We have reduced, in the short-term, our operating expenses for payroll and related costs, rents and professional fees amongst others, in order to conserve resources for the operation of our business. We believe that our current working capital and amounts that may be raised to support operations will be sufficient to fund our capital and operational requirements at least through December 31, 2007. If we cannot raise sufficient additional capital by that date through means available to us, it would adversely affect our ability to achieve our business objectives and we could be required to further curtail operations.

**AS A RESULT OF THE SALE OF OUR AUDIO BUSINESS OUR ABILITY TO ACHIEVE OR SUSTAIN REVENUE GROWTH COULD BE HARMED IF WE ARE UNABLE TO COMPLETE THE DEVELOPMENT OF AND SALE OF OUR MEDICAL AND SENSOR PRODUCTS.**

Apogee historically derived revenue from audio IC product sales, royalties pursuant to our license agreement with ST and others and consulting revenues from contracted audio product development. In 2006 we derived the majority of our revenue from our former audio IC business. With the sale of our audio assets to SigmaTel in October 2005, we will no longer be receiving license revenue and future audio IC sales will diminish as we sell off our remaining inventory. In 2006 we recorded \$383,000 in revenue from the one-year earn-out with SigmaTel. Since the earn-out period expired on October 5, 2006, no additional earn-out will be realized. Apogee released its first sensor products in December 2005 but only generated nominal revenue in 2006 due to the long qualification process, the time period required by our customers to design in our pressure sensor die products and specific design limitations that limited adoptions of our products. We may not have any revenues if we are unable to find customers and to develop our sensor products. Due to the long time required to develop and approve our medical products, we do not expect to receive income in the near future.

**WE MAY NOT BE ABLE TO LICENSE OUR TECHNOLOGY OR OBTAIN DEVELOPMENT PARTNERS, IN WHICH CASE WE WILL BE SIGNIFICANTLY LIMITED IN OUR ABILITY TO GENERATE REVENUE FROM OUR DRUG DELIVERY TECHNOLOGIES.**

In order to commercialize our drug delivery technologies we intend to pursue licensing, development and partnership agreements with pharmaceutical and medical device companies, as the cost to develop and obtain regulatory approval for drug delivery products is high. If we are unable to complete agreements with potential partners or we are unable to raise sufficient funds to commercialize the products ourselves we may not be able to receive a return on our investment in our drug delivery technologies.

**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, market and sell our products is intense, particularly in eastern Massachusetts and Asia. As a result of the October 2005 sale of certain assets to SigmaTel, we will need to hire a number of additional technical personnel if we are to sustain the development of new products and our ability to sell those 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. Our employees may also be recruited away from us by our competitors.

We do not have in place employment contracts for members of our senior management, including the CFO, COO and our Vice President of Research and Development.

**FAILURE TO COMPLY WITH LAWS AND GOVERNMENT REGULATIONS COULD ADVERSELY AFFECT OUR ABILITY TO OPERATE OUR BUSINESS.**

Some of our activities are regulated by federal and state statutes and government agencies. The expected manufacturing, processing, formulation, packaging, labeling, distribution and advertising of our products, and disposal of waste products arising from these activities, maybe subject to regulation by one or more federal agencies, including the FDA, the Drug Enforcement Agency, which we refer to as the ( DEA ), the Federal Trade Commission, the Consumer Product Safety Commission, the U.S. Department of Agriculture, the Occupational Safety and Health Administration, and the Environmental Protection Agency ( EPA ), as well as by foreign governments in countries where we distribute some of our products.

Noncompliance with applicable FDA policies or requirements could subject us to enforcement actions, such as suspensions of manufacturing or distribution, seizure of products, product recalls, fines, criminal penalties, injunctions, failure to approve pending drug product applications or withdrawal of product marketing approvals. Similar civil or criminal penalties could be imposed by other government agencies, such as the DEA, the EPA or various agencies of states and localities. These enforcement actions, if they were to occur, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The FDA has the authority and discretion to withdraw approvals and review the regulatory status of marketed products at any time. For example, the FDA may require an approved marketing application for any drug product marketed if new information reveals questions about a drug's safety or efficacy. All drugs must be manufactured in conformity with current Good Manufacturing Practices and drug products subject to an approved application must be manufactured, processed, packaged, held and labeled in accordance with information contained in the approved application.

**WE DO NOT HAVE MANUFACTURING CAPABILITIES, AND AS A RESULT, WE WILL RELY ON OUTSIDE MANUFACTURERS TO PRODUCE OUR PRODUCTS.**

We have no manufacturing capabilities to produce our products. Accordingly, we utilize outside manufacturers, assembly and in some cases test companies to produce and qualify our products. There are significant risks associated with our reliance on these manufacturers that can adversely affect our business, operating results and financial condition. These risks include:

- the ability to maintain manufacturing relationships, the failure of which could result in significant delays in product introduction due to the time necessary to establish new relationships;
- delays in production or shortages in product delivery as a result of production problems at outside contractors;
- the loss of manufacturing priority that may limit 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 MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE; 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 customer preferences and other factors. Our future performance will depend on our ability to consistently:

- identify emerging technological trends in our market;
- identify changing customer 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.

We may not succeed in developing and marketing new products that respond to technological and competitive developments and changing customer needs, and such products may not gain market acceptance or 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 NOT BE ABLE TO OBTAIN FDA OR FOREIGN REGULATORY APPROVAL FOR OUR PRODUCTS IN A TIMELY MANNER, OR AT ALL, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR ABILITY TO SELL AND MARKET OUR MEDICAL PRODUCTS.**

Drug delivery systems that we may develop in the future cannot be sold in the United States until the FDA approves such products for medical use. Similar foreign regulatory approvals will be needed in order to sell any drug delivery system outside of the U.S. We may not or any of our potential partners may not be able to obtain FDA or foreign regulatory approval for products incorporating our technologies, in a timely manner, or at all. Delays in obtaining FDA or foreign approvals could result in substantial additional costs to us, and, therefore, could adversely affect our ability to compete with other drug delivery companies. If we do not obtain such approvals at all, our revenues may be insufficient to support continuing operations.

**OUR ABILITY TO ACHIEVE REVENUE GROWTH WILL BE HARMED IF WE ARE UNABLE TO MARKET OUR PRODUCTS.**

We face challenges in persuading manufacturers and customers to adopt our products based upon new MEMS and nanotechnologies. In order to adopt our products, customers and their development staff must understand and accept our new technology. In addition, our products may be more expensive or difficult to use for some applications than products based on traditional technologies. For these reasons, prospective customers may be reluctant to adopt our products.

**COMPETITION IN THE SENSOR AND MEDICAL DEVICE INDUSTRIES COULD PREVENT US FROM ACHIEVING PROFITABILITY.**

The medical and sensor device industries are 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, forcing intense pricing pressure on our products. 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.

**OUR COMPLIANCE WITH THE SARBANES-OXLEY ACT AND SEC RULES CONCERNING INTERNAL CONTROLS MAY BE TIME-CONSUMING, DIFFICULT AND COSTLY FOR US.**

We expect that it will be time-consuming and costly for us to develop and implement the internal controls and reporting procedures required by the Sarbanes-Oxley Act.

We may need to hire additional financial reporting, internal controls and other finance staff in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act, we may not be able to obtain the independent accountant certifications that the Sarbanes-Oxley Act requires publicly-traded companies to obtain.

**OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE.**

We have changed our primary line of business, and, as a result, we will experience fluctuations in our quarterly operating results as we have 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;
- introduction 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;
- 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.

**AS A RESULT OF OUR NEED TO RAISE ADDITIONAL CAPITAL IN ORDER TO CONTINUE TO PERFORM RESEARCH AND DEVELOPMENT, OPERATE OUR BUSINESS AND DUE TO OUR SMALL SIZE ALL LITIGATION IMPOSES RISK ON US.**

Many companies have legal actions that arise in the ordinary course of business, we are no different in this regard. However, given our limited number of personnel, current capitalization and stage of development after the sale of our audio business to SigmaTel, legal actions that occur in the ordinary course of business may be more challenging for us than for other companies. Even if successfully defended, 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. If not successfully defended, any litigation may adversely affect our financial condition and results of operations.

**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 acquired a portfolio of MEMS intellectual property and the Company is presently reviewing this portfolio to determine which of the acquired rights can be protected and will be most useful in its business. We cannot be sure that any existing or future patents will not be challenged, invalidated or circumvented, or that any rights 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 in which we operate.

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

The sensor and medical device industries are 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 RELATED TO OUR COMMON STOCK**

##### **WE DO NOT CURRENTLY MEET THE LISTING REQUIREMENTS OF THE AMERICAN STOCK EXCHANGE (THE AMEX), AND IF WE CONTINUE TO FAIL TO MEET SUCH REQUIREMENTS, WE MAY BE DELISTED FROM THE AMEX.**

Our common stock is quoted on the AMEX. In order to continue to be included in the AMEX, we must meet the AMEX maintenance criteria. As Apogee's shareholders' equity was approximately \$3.97 million as of June 30, 2006 and \$2.86 million as of this report, the Company is not in compliance with Section 1003 (a) (ii) of the Company Guide as it has 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. Apogee is 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.

According to the AMEX notice, Apogee submitted a plan prior to December 1, 2006 and a subsequent revision on December 20, 2006, advising of the action it has taken, or will take, to bring Apogee into compliance with Sections 1003(a) (ii) and 1003(a) (iii) of the Company Guide within a maximum of 12 months. Although the Plan was accepted by AMEX on January 12, 2007, and although the Company is permitted to continue its listing during the plan period, the Company will be subject to periodic review to determine whether Apogee is making progress consistent with the plan. There can be no assurance that Apogee will be able to meet all of the criteria outlined in the Plan. See Footnote 20 of the financial statements - Notification from the American Stock Exchange.

If our common stock were delisted, we would trade on the Over the Counter Bulletin Board or the Pink Sheets, LLC, which may have significantly less liquidity than the AMEX. In order to have our common stock relisted on the AMEX, we would be required to meet the criteria for initial listing, which are more stringent than the maintenance criteria. Accordingly, we cannot assure that if we were delisted, we would be able to have our common stock relisted on the AMEX, and most likely our common stock would be quoted on the Over the Counter Bulletin Board. In addition, if our common stock were delisted from the AMEX, it might become more difficult for us to raise additional capital and accomplish our business objectives through the sale of our common stock or securities convertible into our common stock, due to increased costs and potential diminished liquidity in the market for our common stock.

##### **FACTORS UNRELATED TO OUR BUSINESS 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, or for other reasons that are not related to the performance of our business. 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;
- 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.

**NEITHER OUR DISCLOSURE CONTROLS AND PROCEDURES NOR OUR INTERNAL CONTROL OVER FINANCIAL REPORTING CAN PREVENT ALL ERRORS OR FRAUD.**

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting could prevent all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be attained. Furthermore, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of controls can provide absolute assurance that all misstatements due to error or fraud, if any, may occur and not be detected on a timely basis. These inherent limitations include the possibility that judgments in decision-making can be faulty and that breakdowns can occur because of errors or mistakes. Our controls and procedures can also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Furthermore, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

While we seek to design our controls and procedures to provide reasonable assurance that information required to be disclosed in our periodic filings is timely disclosed, these inherent limitations expose us to breakdowns in such controls and procedures.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

The Company's financial instruments include: cash, cash equivalents, accounts receivable and accounts payable. At December 31, 2006 and December 31, 2005, the carrying value of the Company's cash, cash equivalents, accounts receivable and accounts payable approximate fair values given the short maturity of these instruments.

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

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

**PART III****Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.****Directors and Executive Officers***The Board of Directors*

The Company's Certificate of Incorporation, as amended, and Restated By-Laws provide for the Company's business to be managed by or under the direction of the Board of Directors. Under the Company's Certificate of Incorporation, as amended and Restated Bylaws, the number of directors is fixed from time to time by the Board of Directors. The Board of Directors is currently fixed at a minimum of four (4) and a maximum of nine (9). There are currently five members on the Board of Directors.

Set forth below are the names of the directors as of the date of this report, their ages, their offices in the Company, if any, their principal occupations or employment for the past five years, the length of their tenure as directors and the names of other public companies in which such persons hold directorships.

Name	Age	Position with the Company	Term Ending at Annual Meeting
Herbert M. Stein	78	Chairman of the Board, President and Chief Executive Officer	2007
Craig A. Dubitsky(3)	41	Director	2008
Arthur S. Reynolds(1), (2), (3)	63	Director	2009
Sheryl B. Stein	52	Director	2009
Alan W. Tuck(1), (2), (3)	59	Director	2008

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Governance and Nominating Committee

Mr. Herbert M. Stein, a Class III director, has served as the Company's President and Chief Executive Officer since January 2001. Mr. Stein has been a director of the Company since 1996 and has been Chairman of the Board since January 2000. Mr. Stein was Chairman of the Board of Directors of Organogenesis Inc. from 1991 through 1999 and was Chief Executive Officer of Organogenesis from 1987 through 1999.

Mr. Craig A. Dubitsky, a Class I director, has served as a director since June 30, 2004. Mr. Dubitsky is the Founder and Managing Partner of 20-10 LLC, an early stage venture capital and strategic advisory firm. Mr. Dubitsky was Senior Vice President of Venture Development for the Simon Property Group, the largest retail REIT in the United States from October 2000 through March 2002. In addition Mr. Dubitsky was Founder and CEO of BIGMOVE, Inc./Masterkey until it was acquired by Public Storage in 2000 as well as Vice President and LME Specialist at the Salomon Smith Barney division of Citigroup from 1994 through 1999. Mr. Dubitsky currently serves on the Board of Directors of, Sharps USA, LLCOT-Overtime LLC, Digital Advertising Network and Upsource Partners.

Mr. Arthur S. Reynolds, a Class II director, has served as a director since November 2003. Mr. Reynolds is the Founder of Rexion Limited of London and New York where, since 1999, he has served as Managing Director. Mr. Reynolds was Founder, Co-owner and Managing Partner of London-based Value Management & Research (UK) Limited from 1997 to 1999.

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In addition, Mr. Reynolds has held executive positions at Merrill Lynch International Bank Limited, Banque de la Societe Financiere Europeene, J.P. Morgan & Company and Mobil Corporation.

Ms. Sheryl B. Stein, a Class II director, has served as a director of the Company since August 2000. Since January 1993, Ms. Stein has been employed at Bedford Group, Inc. where she currently serves as Co-Chief Executive Officer.

Mr. Alan W. Tuck, a Class I director, has served as a director of the Company since 1998. He was Chief Strategic Officer of Organogenesis Inc. from September 1997 to July 2000, and, at various times from August 1996 to June 1998, was Strategic Advisor to Dyax Corp., Executive Vice President and Chief Strategic Officer of Biocode, Inc., and Chief Strategic Officer of ImmuLogic Pharmaceutical Corporation. Mr. Tuck was President and Chief Executive Officer of T Cell Sciences, Inc. from February 1992 to May 1996. He is currently a director of GTC Biotherapeutics, Inc. and a Partner at the Bridgespan Group, a non-profit consulting company.

### *Executive Officers*

The names of, and certain information regarding, executive officers of the Company who are not also directors, are set forth below. The executive officers serve at the pleasure of the Board of Directors.

Name	Age	Position with the Company
Paul J. Murphy	59	Chief Financial Officer and Vice President of Finance
David B. Meyers	48	Chief Operating Officer
Alexander J. Andrianov	49	Vice President Research and Development

Mr. Paul J. Murphy joined the Company in June 2005 in the role of Chief Financial Officer and Vice President of Finance, including the responsibilities of the Company's Principal Accounting Officer. Prior to joining the Company, from June 2004 to June 2005, Mr. Murphy was an independent contractor with JH Cohn, LLP, an accounting firm, working on engagements with public companies to design, assess and test controls for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. From March 2002 until June 2004, Mr. Murphy worked as a self-employed consultant for companies on short-term projects of the type ordinarily undertaken by a Chief Financial Officer. From February 1999 through January 2002, Mr. Murphy was the Senior Vice President, Chief Financial Officer and Treasurer of Artel Video Systems, Inc., a video networking technology company. From 1979 through 1999, Mr. Murphy worked as a Chief Financial Officer with four companies, three of which were publicly traded issuers.

Mr. David B. Meyers was appointed the Company's Chief Operating Officer in February 2001. From January 2000 until February 2001 he was the Company's Vice-President, Business Development. Since 1996 he has served under various research, engineering and development roles at Apogee and is one of the inventors of the DDX technology. Prior to joining the Company, Mr. Meyers was a principal engineer with Arinc Research Corporation and held engineering and research positions at Northrop Grumman Corporation and Rockwell International performing systems analysis and MEMS sensor development.

Mr. Alexander K. Andrianov joined the Company in September 2006. Dr. Andrianov will support the design and development of novel drug coating and encapsulation technologies for the Company's PyraDerm intradermal drug delivery system. Dr. Andrianov brings over 20 years experience in applications of polymers as biomaterials and drug delivery systems. Most recently he was the founder Chief Scientific Officer of Parallel Solutions from 2001 until 2006, where he developed biodegradable polymers for protein delivery and discovered a new class of potent vaccine immunoadjuvants. Prior to starting Parallel, he worked for Physical Science, Inc. as Principal Research Scientist and at Avant Immunotherapeutics, Inc. as Director of Polymer Synthesis and Formulation. Dr. Andrianov is listed as an inventor on over 35 patents and patent applications and has published numerous technical papers.

Dr. Andrianov received his Ph.D. in Polymer Science from Moscow State University in 1985 and served as a faculty member until 1991. He continued his academic training at the Massachusetts Institute of Technology working with Professor Robert Langer.

#### *Family Relationships*

Herbert M. Stein is the father of Sheryl B. Stein. There are no other family relationships among our directors, executive officers or persons nominated or chosen to become directors or executive officers.

#### *Involvement in Certain Legal Proceedings*

No events have occurred during the past five years that are required to be disclosed pursuant to Item 401(d) of Regulation S-B.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires the Company's directors and officers, and persons who own more than 10% of the Company's Common Stock, to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of the Common Stock and other equity securities of the Company. Officers, directors and greater than 10% beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on its review of copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2006, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with except for a grant on August 17, 2006 that was made to all of our directors and executive officers serving at the time, which was subsequently remedied by a filing for all parties on September 12, 2006.

### **Code of Ethics**

Our Board of Directors has adopted a code of ethics, which applies to all of our directors, officers and employees. Our code of ethics is specifically intended to comply with Item 406 of Regulation S-B. This code of ethics, which is included as part of the Company's Code of Conduct and Ethics, is posted on the Company's website at: <http://www.apogeemems.com>.

### **Corporate Governance**

#### *Stockholder Communications with the Board*

Any Stockholder may contact the Chairman of the Board or other members of the Board of Directors by sending an email to the following address: [bod@apogeemems.com](mailto:bod@apogeemems.com). Alternatively, a stockholder can contact the Chairman of the Board or the other members of the Board of Directors by writing to: Board of Directors, c/o Compliance Officer, Apogee Technology, Inc., 129 Morgan Drive, Norwood, Massachusetts 02062. All communications received either electronically or in writing will be distributed to the Chairman of the Board or the other members of the Board deemed appropriate depending on the facts and circumstances outlined in the communication received.

### **Director Nominations and Qualifications**

The Company's By-Laws contain provisions that address the process by which a stockholder may nominate an individual to stand for election to the Company's Board of Directors at the Annual Meeting of Stockholders. No recommendations have been received from stockholders requesting that the nominating and corporate governance committee consider a candidate for inclusion as a nominee to be



presented at the 2006 Annual Meeting of Stockholders. The nominating and corporate governance committee will consider qualified candidates for director suggested by a stockholder. Stockholders can suggest qualified candidates for director by writing to our corporate secretary at 129 Morgan Drive, Norwood, Massachusetts 02062.

Submissions received that meet the criteria set forth below will be forwarded to the chairman of the nominating and corporate governance committee for further review and consideration. To be timely, a stockholder's notice pertaining to an annual meeting shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the sixtieth (60th) day nor earlier than the close of business on the ninetieth (90th) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such annual meeting or the close of business on the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Corporation. A stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended (or any successor provision), and the rules and regulations thereunder with respect to the matters set forth in the by-laws. Nominations not received, in the appropriate manner or during the time frame discussed above will not be voted on at the Annual Meeting. Even if a nomination is received in the correct manner and during that time frame, the proxies that the Company solicits for the meeting may still exercise discretionary voting authority on the nomination under circumstances consistent with the proxy rules of the Securities and Exchange Commission.

#### **General Information Concerning the Board of Directors and its Committees**

During the fiscal year ended December 31, 2006 there were four (4) meetings of the Board of Directors. In addition, from time to time, the members of the Board of Directors acted by unanimous written consent pursuant to Delaware law. The Board of Directors has four standing committees: the audit committee, the compensation committee, the nominating and corporate governance committee, and the executive committee. Each of the directors attended all of the meetings of the Board and Board Committees (of which he or she was a member) held during the last fiscal year with the exception of one director who did not attend one meeting.

##### *Audit Committee.*

The Board of Directors has established a separately designated, standing Audit Committee that performs the role described in section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Audit Committee is currently comprised of Messrs. Alan W. Tuck and Arthur S. Reynolds, each of whom is independent in accordance with the applicable rules promulgated by the SEC and The American Stock Exchange Listing Standards. The Audit Committee selects and retains the independent auditors to audit the Company's financial statements, approves the terms of the engagement of the independent auditor and reviews and approves all fees charged for audits and for any non-audit projects. The Board of Directors has adopted a revised written charter for the Audit Committee, a copy of which is posted on the Company's website at: <http://www.apogemems.com>.

The Board of Directors has concluded that Mr. Reynolds meets the definition of an Audit Committee Financial Expert as such term is used in the rules and regulations of the SEC. The Audit Committee's responsibilities also include: overseeing the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, the performance of the Company's independent auditors and other such matters as may be

assigned by the Board of Directors. During the fiscal year ended December 31, 2006, the Audit Committee held five (5) meetings.

*Compensation Committee.*

The Compensation Committee is currently comprised of Messrs. Alan W. Tuck and Arthur S. Reynolds, each of whom qualifies as an independent director under the rules of The American Stock Exchange. The Compensation Committee reviews and determines salaries, equity grants and incentive compensation of the chief executive officer and other executive officers and is responsible for performing the other related responsibilities set forth in its Duties and Responsibilities.

During the fiscal year ended December 31, 2006, the Compensation Committee held one (1) meeting.

*Nominating and Corporate Governance Committee.*

The Nominating and Corporate Governance Committee is currently comprised of Messrs. Alan W. Tuck and Arthur S. Reynolds, each of whom is independent in accordance with the applicable American Stock Exchange Listing Standards. The Nominating and Corporate Governance Committee selects and recommends individuals to be presented to the shareholders of the Company for election or re-election to the Board or Directors, oversees the evaluation of the Board of Directors and Company management, monitors corporate governance principles, practices and guidelines for the Board of Directors and the Company and is responsible for performing other responsibilities as set forth in its written charter, a copy of which is posted on the Company's website at: <http://www.apogeemems.com>

In evaluating director nominees, the nominating and corporate governance committee considers the following factors:

- business-related knowledge, skills and experience of the nominee;
- experience with corporate governance matters and compliance obligations of a public company, including experience with disclosure and accounting rules and practices;
- integrity of the nominee;
- mix of talent and experience and diversity of the directors as a group;
- other professional and business commitments of the nominee, including the number of other boards on which the nominee serves, including public and private boards; and
- other factors as may be deemed to be in the best interests of the Company and its Stockholders.

The Board of Directors currently does not have a policy regarding attendance by directors at the Company's annual meeting of Stockholders; however, they are encouraged to attend and it schedules a meeting of the Board of Directors on the same date as the annual stockholders meeting. The following directors of the Company attended the annual stockholders meeting in 2006: Arthur S. Reynolds, Sheryl B. Stein and Alan W. Tuck.

**Item 10. EXECUTIVE COMPENSATION.**

The table below sets forth information concerning compensation paid to Herbert M. Stein, Paul J. Murphy, David B. Meyers, Alexander K. Andrianov and Nevenka Golubovic-Liakopoulos. As set forth below, our compensation program for our executive officers consists of base salary and discretionary option awards.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position(1)	Year	Salary (\$)	Option Awards (\$)(3)	All Other Compensation (\$)	Total (\$)
Herbert M. Stein President and Chief Executive Officer	2006	\$ 295,000 (2)	\$ 228,360	\$ 278,941 (4)	\$ 801,779
Paul J. Murphy Vice President Finance and Chief Financial Officer	2006	\$ 160,000	\$ 15,403	\$ 0	\$ 175,403
David B. Meyers Chief Operating Officer	2006	\$ 170,000	\$ 3,228	\$ 0	\$ 173,228
Alexander K. Andrianov Vice President Research and Development	2006	\$ 39,917 (5)	\$ 3,744	\$ 0	\$ 43,661
Nevenka Golubovic-Liakopoulos Vice President Medical Products Group(6)	2006	\$ 126,083	\$ 7,986	\$ 5,000	\$ 139,069

(1) Currently, none of the officers of the Company are under employment contracts with the exception of Mr. Herbert M. Stein.

(2) Mr. Stein is compensated pursuant to an employment agreement of which the initial term ends on January 1, 2007, the agreement is automatically extended for additional two-year periods unless terminated by Mr. Stein or the Board of Directors no later than 120 days prior to the end of the initial term or any successive term. Mr. Stein is entitled to an annual base salary, effective January 1, 2004, of \$295,000 which may be increased at the discretion of the Company's Board of Directors, and annual bonuses as determined by the Company's Board of Directors.

(3) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with SFAS 123(R) of awards of stock options and thus include amounts from awards granted in and prior to 2006. Assumptions used in this calculation are included in Part II - Item 7, Financial Statements and Supplementary Data of this Annual Report on Form 10-KSB/A and Footnote 2 of the Financial Statements Summary of Accounting Policies Stock Based Compensation and Footnote 17 of the Financial Statements Stock Based Compensation.

(4) 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. As of December 31, 2006, the Company has incurred \$278,419 toward this indemnification.

(5) Dr. Andrianov joined the Company on September 12, 2006.

(6) Separated from the Company as of December 20, 2006.

**Employment Agreements**

In March 2004, the Company entered into an employment agreement with Herbert M. Stein pursuant to which Mr. Stein serves as the Company's Chief Executive Officer and President, as well as Chairman of



the Board of Directors, subject to the rights of the shareholders of the Company to elect the Company's directors. The employment agreement is for an initial term ending on January 1, 2007 and is to be automatically extended for additional two-year periods unless terminated by either party no later than 120 days prior to the end of the initial term or any successive term. Mr. Stein is entitled to an annual base salary, effective January 1, 2004, of \$295,000 which may be increased at the discretion of the Company's Board of Directors, and annual bonuses as determined by the Company's Board of Directors. Upon a change of control of the Company, as defined in the agreement, all stock options held by Mr. Stein shall become fully vested. The Company may terminate the employment agreement with or without cause, as defined in the agreement. In the event of Mr. Stein's death or disability, the agreement provides that he (or his estate) shall be entitled to accrued salary through the date of termination, any bonus the Board of Directors has determined appropriate, and any proceeds or other benefits from insurance policies or other benefit plans to which he (or his estate) would be entitled. In the event that Mr. Stein's employment is terminated for cause, he shall only be entitled to accrued salary through the date of termination. In the event that Mr. Stein is terminated without cause, he shall be entitled to accrued salary through the date of termination, continued base salary payments for the greater of 24 months or the remainder of the term of the agreement, continued medical plan benefits for 24 months following the date of termination, and an amount equal to the highest bonus he has previously received under the agreement, prorated to the date of termination. In the event that Mr. Stein voluntarily terminates his employment, he shall be entitled to accrued salary through the date of termination and an amount equal to the highest bonus he has previously received under the agreement, prorated to the date of termination.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

The following table shows grants of stock options and grants of unvested incentive plan awards on the last day of the fiscal year ended December 31, 2006, to each of the executive officers named in the Summary Compensation Table.

Name	Option Awards						Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable							
Herbert M. Stein	300,000	0				0	\$ 0.950	08/17/2016	
	200,000	0				0	\$ 8.920	06/07/2014	
	175,000	0				0	\$ 8.650	03/25/2014	
	200,000	0				0	\$ 4.080	03/27/2013	
	100,000	0				0	\$ 2.710	01/21/2013	
	100,000	0				0	\$ 5.500	04/03/2012	
	350,000	0				0	\$ 6.300	12/21/2011	
	100,000	0				0	\$ 6.300	08/16/2011	
	100,000	0				0	\$ 6.250	02/12/2011	
	80,000	0				0	\$ 1.240	05/19/2010	
	40,000	0				0	\$ .0275	07/01/2007	
David B. Meyers	0	25,000 (1)				0	\$ 0.950	08/17/2016	
	0	15,000 (2)				0	\$ 0.800	09/12/2016	
	50,000	0				0	\$ 9.060	06/02/2014	
	50,000	0				0	\$ 8.650	03/24/2014	
	50,000	0				0	\$ 4.325	03/18/2013	
	50,000	0				0	\$ 5.900	03/04/2012	
	35,000	0				0	\$ 6.250	02/12/2011	
	20,000	0				0	\$ 1.690	04/06/2010	
	74,000	0				0	\$ 0.250	07/01/2007	
Paul J. Murphy	0	25,000 (3)				0	\$ 0.950	08/17/2016	
	12,000	48,000 (4)				0	\$ 1.270	06/01/2015	
Alexander K. Andrianov	0	60,000 (5)				0	\$ 0.800	09/12/2016	
Nevenka Golubovic-Liaopoulos*	2,500	0				0	\$ 1.270	03/20/2007	
	25,000	0				0	\$ 8.500	03/20/2007	

(1) 25,000 Options granted on August 17, 2006; vesting at 20% per year beginning at the first anniversary of the grant date.

(2) 15,000 Options granted on September 12, 2006; vesting at 20% per year beginning at the first anniversary of the grant date.

(3) 25,000 Options granted on August 17, 2006; vesting at 20% per year beginning at the first anniversary of the grant date.

(4) 60,000 Options granted on June 1, 2005; vesting at 20% per year beginning at the first anniversary of the grant date.



(5) 60,000 Options granted on September 12, 2006; vesting at 20% per year beginning at the first anniversary of the grant date.

\* Separated from the Company as of December 20, 2006 resulting in the cancellation of an additional 65,000 options.

**Termination or Change in Control Arrangements**

Other than Mr. Stein's employment agreement, which may provide for payments in connection with his termination, as discussed above, there are no arrangements with any executive officer that would provide for payments in connection with their termination or a change in control of the Company.

**DIRECTOR COMPENSATION**

Directors who are also employees of the Company do not receive compensation for serving as directors. Directors who are not employees of the Company are paid a retainer and are reimbursed for ordinary and necessary travel expenses incurred in connection with attendance at each board meeting. The annual retainer in fiscal 2006 was \$5,000. In fiscal 2006, each non-employee director earned \$1,250 per quarter. In addition members of both the audit committee and compensation committee received an annual retainer of \$2,000 payable quarterly. During fiscal 2006 the Audit Committee chairperson received an annual retainer \$5,000 and the Compensation Committee chairperson received an annual retainer of \$4,000, payable quarterly.

In addition to the cash compensation discussed above, Directors are eligible to participate in the Company's 1997 Employee, Director and Consultant Stock Option Plan (the Plan). Options granted under the Plan to non-employee directors vest over a five year period beginning after one year of service from the date of grant. Options to purchase 20,000 shares of the Company's Common Stock, at an exercise price of \$0.95 per share, vesting over five years, were granted under the Plan during the year ended December 31, 2006 to each of Craig A. Dubitsky, Arthur S. Reynolds, Sheryl B. Stein and Alan W. Tuck.

Name	Fees Earned or Paid in Cash (\$)		Option Awards (\$)(1)		Total (\$)	
Craig A. Dubitsky	\$	5,000	\$	1,834	\$	6,834
Arthur S. Reynolds	\$	12,000	\$	9,023	\$	21,023
Sheryl B. Stein	\$	5,000	\$	1,834	\$	6,834
Alan W. Tuck	\$	11,000	\$	5,428	\$	16,428

(1) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with SFAS 123(R) of awards of stock options and thus include amounts from awards granted in and prior to 2006. Assumptions used in this calculation are included in Part II - Item 7, Financial Statements and Supplementary Data of the previously filed Annual Report on Form 10-KSB and Footnote 2 of the Financial Statements Summary of Accounting Policies Stock Based Compensation and Footnote 17 of the Financial Statements Stock Based Compensation.



**Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth certain information as of April 24, 2007 concerning the beneficial ownership of Common Stock by each Stockholder known by the Company to be the beneficial owner of more than 5% of its outstanding shares of Common Stock, each current member of the Board of Directors, each executive officer named in the Summary Compensation Table on page 6 hereof, and all current directors and executive officers as a group. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities.

Name and Address**	Shares Beneficially Owned (1)			
	Number			Percent
Herbert M. Stein 71 Fairlee Road, Waban, MA 02468	3,418,834(2)			28.57%
H.M. Stein Associates C/o Herbert M. Stein 71 Fairlee Road, Waban, MA 02468	1,466,334(3)			12.25%
David Spiegel 600 Mountain Street, Sharon, MA 02067	1,814,532(4)			15.16%
Sheryl B. Stein 150 East 57th Street, New York, NY 10022	880,470(5)			7.36%
Leo Spiegel 30 Ashcroft Road, Sharon, MA 02067.	783,636			6.55%
David B. Meyers	329,000(6)			2.75%
Alan W. Tuck	301,500(7)			2.52%
Arthur S. Reynolds	54,500(8)			*
Paul J. Murphy	24,000(9)			*
Craig A. Dubitsky	20,000(10)			*
All executive officers and directors as a group (8 persons)	5,028,304(11)			35.05%

\* Represents beneficial ownership of less than 1% of the Company's outstanding shares of Common Stock.

\*\* Addresses are given for beneficial owners of more than 5% of the Company's outstanding stock only.

(1) The number of shares of Common Stock issued and outstanding on April 24, 2007 was 11,968,331. The calculation of percentage ownership of each listed beneficial owner is based upon the number of shares of Common Stock issued and outstanding on April 24, 2007, including shares of Common Stock subject to options and/or warrants held by such person at April 24, 2007 and exercisable within 60 days thereafter. On December 28, 2005, Apogee filed a Form 8-K with the SEC announcing that the Board of Directors approved the accelerated vesting of certain unvested stock options awarded to employees and non-employee members of the Board of Directors. As a result of the Board's approval, the vesting provisions for options covering approximately 880,000 underlying shares of Common Stock were accelerated. Approximately 665,000 of the underlying Shares, of the total accelerated, belong to executive officers and non-employee members of the Board of Directors. The Board only accelerated the vesting of those options having exercise prices in excess of \$2.00 per share and did not accelerate the vesting of any options with exercise prices below \$2.00 per share. The persons and entities named in the table have sole voting and investment power with respect to all Shares shown as beneficially owned by them, except as noted below.

(2) Includes 96,100 shares of Common Stock owned directly by Mr. Stein, 1,745,000 shares of Common Stock which may be purchased by Mr. Stein upon the exercise of fully vested options, 111,400 shares of Common Stock owned by Mr. Stein's wife, and 1,466,334 shares of Common Stock owned by H.M. Stein Associates (HMSA).



- (3) The partners of HMSA are Herbert M. and Renee Stein, their daughters, Erica, Sheryl and Sharyn and Fairlee Corporation. Mr. Stein has an 8% general partnership interest in HMSA. Mr. Stein and his wife, Renee Stein, are the sole stockholders of Fairlee Corporation, which has a 1% general partnership interest in HMSA. Mr. Stein disclaims beneficial ownership of 91% of such shares.
- (4) Includes 1,731,232 shares of Common Stock owned directly by Mr. Spiegel, 200 shares of Common Stock owned by Mr. Spiegel's wife and 400 shares of Common Stock owned by Mr. Spiegel's wife as custodian for two minor children. Includes 82,700 shares of Common Stock owned by The Spiegel Family Limited Partnership. Mr. Spiegel has sole voting and investment power with respect to these shares, but disclaims beneficial ownership of 68% of such shares.
- (5) Includes 260,400 shares of Common Stock owned directly by Ms. Stein, 100,000 shares of Common Stock which may be purchased by Ms. Stein upon exercise of fully vested options. Includes 19,400 shares of Common Stock owned by H.M. Stein & Co. and 500,670 shares of Common Stock owned by HMSA.
- (6) Includes 329,000 shares of Common Stock which may be purchased by Mr. Meyers upon exercise of fully vested options.
- (7) Includes 127,000 shares of Common Stock owned directly by Mr. Tuck, 104,500 shares of Common Stock which may be purchased by Mr. Tuck upon exercise of fully vested options, 60,000 shares owned by Mr. Tuck's wife and 10,000 shares held in a trust for Mr. Tuck's brother of which Mr. Tuck disclaims beneficial ownership.
- (8) Includes 54,500 shares of Common Stock which may be purchased by Mr. Reynolds upon exercise of fully vested options.
- (9) Includes 12,000 shares of Common Stock which may be purchased by Mr. Murphy upon exercise of fully vested options and 12,000 shares of Common Stock which may be purchased within 60 days of April 24, 2007.
- (10) Includes 20,000 shares of Common Stock which may be purchased by Mr. Dubitsky upon exercise of fully vested options.
- (11) Includes 2,365,000 shares of Common Stock which may be purchased upon exercise of fully vested options and 12,000 shares of Common Stock which may be purchased within 60 days of April 24, 2007.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The table below provides certain aggregate information with respect to the Company's 1997 Employee, Director and Consultant Stock Option Plan in effect as of December 31, 2006.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options		Weighted Average Exercise Price of Outstanding Options		Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in first column)	
Equity Compensation Plans Approved by Security Holders(1)	2,899,100		\$	4.65		631,180
Equity Compensation Plans not Approved by Security Holders	N/A		N/A			N/A
Total	2,899,100		\$	4.65		631,180

- (1) This plan consists of the 1997 Employee, Director and Consultant Stock Option Plan initially approved by the

Company's stockholders in 1997.

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**Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

**Related Transactions**

In April 1997, the Company moved its principal executive offices to a facility owned by Mr. David Spiegel, a major shareholder of the Company. On October 1, 2001 the Company signed a 24-month lease for this facility, expiring September 30, 2003. Subsequently, the Company signed two lease extensions. The most recent lease extension expired on December 31, 2005.

The Company is currently renting this facility on a month-to-month basis. The Company rents the facility for \$4,400 per month effective October 1, 2001. Rent paid during 2006, 2005 and 2004 amounted to \$158,400 in the aggregate. The Company believes that amounts paid pursuant to this lease are at or below market value.

In March 2004, the Company entered into an employment agreement with Herbert M. Stein as described above.

**Director Independence**

The Board of Directors has determined that Messrs. Tuck, Reynolds and Dubitsky are independent in accordance with applicable American Stock Exchange Listing Standards. Mr. Stein is not considered independent because he is currently serving as the Company's President and Chief Executive Officer. Ms. Stein is not considered independent because she is the daughter of Mr. Stein, the Company's President and Chief Executive Officer.

**Item 13. EXHIBITS.**

None

**Item 13(a)** The following documents are filed as part of this annual report on Form 10-KSB/A

**Item 13(a)(1) and (2)** The Consolidated Financial Statements were filed as part of our Original Report for the fiscal year ended December 31, 2006.

**Item 13(a)(3)** Exhibits

The following is a list of exhibits filed as part of this Annual Report on Form 10-KSB/A.

Exhibit No	Description	Filed with this Form 10-KBS/A
3.1	Certificate of Incorporation of Apogee Technology, Inc., incorporated herein by reference to Exhibit 3.1 to the Registrant's Form 10-SB, as amended (File No. 000-17053).	
3.2	Amendment of Certificate of Incorporation of Apogee Technology, Inc., incorporated herein by reference to Exhibit 3.2 to the Registrant's Form 10-SB, as amended (File No. 000-17053).	
3.3	Certificate of Amendment to Certificate of Incorporation of Apogee Technology, Inc., incorporated herein by reference from Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001 (File. No. 000-30656).	
3.4	Restated By-Laws of Apogee Technology, Inc., incorporated herein by reference from Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001 (File. No. 000-30656).	
10.1*	License Agreement dated February 2, 2001 by and between the Registrant and STMicroelectronics, NV, incorporated herein by reference from Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2001. (File No. 000-30656).	
10.2	Letter Agreement between Laurus Master Fund and Apogee Technology, Inc., dated December 5, 2005, filed with the Current Report on Form 8-K, dated December 7, 2005 (File No. 001-10456).	
10.3	Termination of Registration Rights Agreement, dated December 5, 2005 filed with the Current Report on Form 8-K, dated December 7, 2005 (File No. 001-10456).	
10.4	Apogee Technology, Inc. Amended and Restated Common Stock Purchase Warrant, filed with the Current Report on Form 8-K, dated December 7, 2005 (File No. 001-10456).	
10.5	Securities Purchase Agreement, by and between Apogee Technology, Inc. and Laurus Master Fund, Ltd., incorporated herein by reference from Exhibit 10.1 to the Registrant's Form 8K as filed on August 9, 2005 (File No. 001-10456).	
10.6	Master Security Agreement, by and between Apogee Technology, Inc. and Laurus Master Fund, Ltd., incorporated herein by reference from Exhibit 10.2 to the Registrant's Form 8K as filed on August 9, 2005 (File No. 001-10456).	

- 10.7 Form of Laurus Master Fund, Ltd. Warrant, incorporated herein by reference from Exhibit 10.3 to the Registrant's Form 8K as filed on August 9, 2005 (File No. 001-10456).
- 10.8 Grant of Security Interest In Patents and Trademarks, by and between Apogee Technology, Inc. and Laurus Master Fund, Ltd., incorporated herein by reference from Exhibit 10.4 to the Registrant's Form 8K as filed on August 9, 2005 (File No. 001-10456).
- 10.9 Registration Rights Agreement, by and between Apogee Technology, Inc. and Laurus Master Fund, Ltd., incorporated herein by reference from Exhibit 10.5 to the Registrant's Form 8K as filed on August 9, 2005 (File No. 001-10456).
- 10.10 Form of Biscayne Capital Markets, Inc. Warrant, incorporated herein by reference from Exhibit 10.7 to the Registrant's Form 8K as filed on August 9, 2005 (File No. 001-10456).
- 10.11 Secured Convertible Term Note, by and between Apogee Technology, Inc. and Laurus Master Fund, Ltd., incorporated herein by reference from Exhibit 10.7 to the Registrant's Form 8K as filed on August 9, 2005 (File No. 001-10456).
- 10.12 Asset Purchase Agreement dated as of October 5, 2005, by and among SigmaTel, Inc., Apogee Technology, Inc., certain stockholders, and with respect to the provisions of Section 8.15 only, David B. Meyers, incorporated herein by reference from Exhibit 99.1 to the Registrant's Form 8K as filed on October 7, 2005 (File No. 001-10456).
- 10.13 Escrow Agreement dated as of October 5, 2005, among SigmaTel, Inc., Apogee Technology, Inc., and Wells Fargo Bank, N.A., incorporated herein by reference from Exhibit 99.2 to the Registrant's Form 8K as filed on October 7, 2005 (File No. 001-10456).
- 10.14 Indemnification Agreement dated as of October 5, 2005, among SigmaTel, Inc., Apogee Technology, Inc., Herbert M. Stein, H.M. Stein Associates, and Sheryl B. Stein. incorporated herein by reference from Exhibit 99.3 to the Registrant's Form 8K as filed on October 7, 2005 (File No. 001-10456).
- 10.15 Settlement Agreement between Apogee Technology, Inc. and National Hybrid, Inc., dated December 31, 2005 and incorporated herein by reference from Exhibit 10.15 to the Registrant's Form 10-KSB for the fiscal year ended December 31, 2005 (File No. 001-10456).
- 10.16\* Transfer Employment and Royalty Agreement, dated May 11, 2004 and incorporated herein by reference from Exhibit 10.16 to the Registrant's Form 10-KSB for the fiscal year ended December 31, 2005 (File No. 001-10456).
- 14 Code of Conduct and Ethics, incorporated herein by reference to Exhibit 14 to the Registrant's Form 10-KSB for the year ended December 31, 2003 (File No. 000-30656).
- 23 Consent of Independent Accountants to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-106316, 333-61486 and No. 333-90558) of the consolidated financial statements which appear in this Annual Report on Form 10-KSB.

- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer. Filed with the Registrant's Form 10-KSB for the fiscal year ended December 31, 2006 (File No. 001-10456) and incorporated herein by reference.
- 31.2 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer. Filed with the Registrant's Form 10-KSB for the fiscal year ended December 31, 2006 (File No. 001-10456) and incorporated herein by reference.
- 32 Statement pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer and Principal Financial Officer. Filed with the Registrant's Form 10-KSB for the fiscal year ended December 31, 2006 (File No. 001-10456) and incorporated herein by reference.
- 31.3 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer. X
- 31.4 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer. X

\* Confidential treatment requested as to certain portions of the document, which portions have been omitted and filed separately with the Securities and Exchange Commission.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Miller Wachman LLP audited the Company's financial statements for the fiscal years ended December 31, 2006, December 31, 2005, December 31, 2004 and restated December 31, 2003. The Company expects that representatives of Miller Wachman LLP will be present at the Meeting, with the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

The following table presents fees for professional audit services rendered by Miller Wachman LLP, our independent registered public accounting firm, for the audit of the Company's annual financial statements for the years ended December 31, 2006 and December 31, 2005, and fees billed for other services rendered by Miller Wachman LLP during those periods.

	2006	2005
<b>Audit fees:(1)</b>	\$ 68,960	\$ 95,000
<b>Audit related fees:(2)</b>	0	0
<b>Tax fees:(3)</b>	10,000	8,000
<b>All other fees:(4)</b>	0	0
<b>Total</b>	<b>\$ 78,960</b>	<b>\$ 103,000</b>

(1) Audit fees consisted of audit work performed in the preparation of financial statements, as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory audits.

(2) The Company incurred no fees in this category during fiscal year 2005 or fiscal year 2006.

(3) Tax fees consist principally of assistance with matters related to tax compliance and reporting.

(4) The Company incurred no fees in this category during fiscal year 2006 or fiscal year 2005.



**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-audit Services of Independent Auditors**

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to engagement of the independent auditor for the next year's audit, management will submit an aggregate of services expected to be rendered during that year for each of four categories of services to the Audit Committee for approval.

1. **Audit** services include audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters, statutory audits, and attest services and consultation regarding financial accounting and/or reporting standards.
2. **Audit-Related** services are for assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.
3. **Tax** services include all services performed by the independent auditor's tax personnel except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice.
4. **Other Fees** are those associated with services not captured in the other categories. The Company generally does not request such services from the independent auditor.

Prior to engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires the independent auditor and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

In the event that ratification of the appointment of Miller Wachman LLP as the independent registered public accounting firm for the Company is not obtained at the Meeting, the Board of Directors will reconsider the appointment.

The affirmative vote of a majority of the shares voted at the Meeting is required to ratify the appointment of the independent public accountants.

**SUPPLEMENTAL INFORMATION**

We have not sent an annual report or proxy statement to security holders regarding the fiscal year ended December 31, 2006. Such report and proxy statement will be furnished to security holders in connection with our Annual Meeting, which we anticipate scheduling for mid-summer in 2007. Copies of such material will be furnished to the SEC when it is sent to security holders.

**SIGNATURES**

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

APOGEE TECHNOLOGY, INC.

By: /s/ HERBERT M. STEIN  
Herbert M. Stein, President  
Chief Executive Officer,  
Chairman of the Board

Date: April 27, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated below and on the dates indicated.

**Signatures**

By: /s/ HERBERT M. STEIN  
Herbert M. Stein  
By: /s/ PAUL J. MURPHY  
Paul J. Murphy

**Title**  
President, Chief Executive Officer  
Chairman of the Board  
Chief Financial Officer  
Vice President of Finance  
Treasurer

**Date**  
Date: April 27, 2007  
Date: April 27, 2007