APOGEE TECHNOLOGY INC
Form 10QSB
August 22, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2005

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

For the transition period from to

Commission file number 000-30656

APOGEE TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

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

129 MORGAN DRIVE, NORWOOD, MASSACHUSETTS 02062

(Address of principal executive offices)

(781) 551-9450

(Issuer s telephone number, including area code)

NOT APPLICABLE.

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

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

State the number of shares of each of the Issuer s classes of common equity, as of the latest practicable date: As of August 5, 2005, there were 11,838,332 shares of Common Stock, $.01 par value per share, outstanding.

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

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

APOGEE TECHNOLOGY, INC.

INDEX OF INFORMATION CONTAINED IN FORM 10-QSB FOR THE

QUARTER ENDED JUNE 30, 2005 AND RESTATED JUNE 30, 2004

PART I-FINANCIAL INFORMATION

PART II - OTHER INFORMATION

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

		JUNE 30, 2005 (Unaudited)		DECEMBER 31, 2004 (Audited)
ASSETS				
Current assets				
Cash and cash equivalents	$	**363,944**	$	**1,886,883**
Accounts receivable, net of allowance for doubtful accounts of $130,000 and $105,000, respectively		**581,953**		**533,113**
Inventories, net		**2,620,487**		**2,725,308**
Prepaid expenses and other current assets		**149,971**		**252,728**
Total current assets		**3,716,355**		**5,398,032**
Property and equipment, net of accumulated depreciation of $408,193 and $376,951, respectively		**134,133**		**103,189**
Other assets				
Patent, net of accumulated amortization of $140,675 and $127,442, respectively		**246,615**		**211,901**
	$	**4,097,103**	$	**5,713,122**
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIENCY)				
Current liabilities				
Accounts payable and accrued expenses	$	**1,906,544**	$	**1,107,111**
Deferred distributor revenue		**2,100,479**		**1,955,563**
Officer and shareholder loans		**500,000**		
Deferred contract revenue		**72,686**		**95,788**
Total current liabilities		**4,579,709**		**3,158,462**
Commitments and Contingencies				
Stockholders equity (deficiency)				
Common stock, $.01 par value; 20,000,000 shares authorized, 11,838,332 issued and outstanding		**118,383**		**118,383**
Additional paid-in capital at June 30, 2005 and December 31, 2004		**18,073,223**		**18,073,223**
Accumulated deficit		**(18,674,212)**		**(15,636,946)**
Total stockholders equity (deficiency)		**(482,606)**		**2,554,660**
	$	**4,097,103**	$	**5,713,122**

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

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APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	THREE MONTHS ENDED June 30,		SIX MONTHS ENDED June 30,	
	2005	**2004 (Restated)**	**2005**	**2004 (Restated)**
Revenues				
Product sales	**$ 1,154,661**	$ 899,247	**$ 2,168,449**	$ 2,538,710
Royalties	**159,978**	238,396	**260,931**	443,973
Consulting		200,000		504,484
	1,314,639	1,337,643	**2,429,380**	3,487,167
Costs and expenses				
Product sales	**885,885**	1,076,876	**1,853,228**	2,086,740
Research and development	**732,868**	606,227	**1,523,007**	1,318,593
Selling, general and administrative	**1,293,144**	623,523	**2,093,084**	1,272,860
	2,911,897	2,306,626	**5,469,319**	4,678,193
Operating (loss) income	**(1,597,258)**	(968,983)	**(3,039,939)**	(1,191,026)
Other (expense) income				
Interest expense	**(3,452)**		**(3,452)**	
Interest income	**1,728**	5,662	**6,125**	10,977
	(1,724)	5,662	**2,673**	10,977
Net (loss) income	**(1,598,982)**	(963,321)	**(3,037,266)**	(1,180,049)
Accumulated deficit - beginning	**(17,075,230)**	(12,468,475)	**$ (15,636,946)**	$ (12,251,748)
Accumulated deficit - ending	**$ (18,674,212)**	$ (13,431,796)	**$ (18,674,212)**	$ (13,431,797)
Basic and diluted (loss) income per common share	**$ (0.14)**	$ (0.08)	**$ (0.26)**	$ (0.10)
Weighted average common shares outstanding - basic and diluted	**11,838,332**	11,380,790	**11,838,332**	11,359,469

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

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	SIX MONTHS ENDED June 30, 2005		SIX MONTHS ENDED June 30, 2004 (Restated)
Cash flows from operations			
Net loss	**$**	**(3,037,266)**	$ (1,180,049)
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Provision for doubtful accounts		**25,000**	10,000
Provision for slow moving, excess and obsolete inventory		**320,867**	142,514
Depreciation and amortization		**44,475**	48,808
Changes in operating assets and liabilities:			
Accounts receivable		**(73,841)**	1,017,042
Inventories		**(216,045)**	(8,942)
Prepaid expenses and other current assets		**102,757**	(77,126)
Accounts payable and accrued expenses		**799,433**	(844,408)
Deferred product revenue		**144,916**	53,137
Deferred contract revenue		**(23,102)**	(50,000)
Net cash used in operating activities		**(1,912,806)**	(889,024)
Cash flows from investing activities			
Purchases of property and equipment		**(62,186)**	(30,615)
Patent costs		**(47,947)**	(29,729)
Other intangible assets			(114,056)
Net cash used in investing activities		**(110,133)**	(174,400)
Cash flows from financing activities			
Proceeds from issuances of common stock			231,859
Proceeds from officer loan		**250,000**	
Proceeds from shareholder loan		**250,000**	
Net cash provided by financing activities		**500,000**	231,859
Decrease in and cash equivalents		**(1,522,939)**	(831,565)
Cash and cash equivalents - beginning		**1,886,883**	2,524,209
Cash and cash equivalents - ending	**$**	**363,944**	1,692,644

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

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND RESTATED JUNE 30, 2004

1. The Company and Basis of Presentation

The Company

Apogee Technology, Inc. and Subsidiary (the Company or Apogee) designs, develops and markets silicon based products incorporating proprietary technologies. The Company s patented all-digital, high efficiency Direct Digital Amplification (DDX®) technology Integrated Circuits (ICs) are used in a range of audio applications, including: home theater systems, powered speakers, car audio, commercial audio, and PC multi-media. The Company is developing new system-on-chip products using its analog and digital circuit designs and Micro-Electromechanical Systems (MEMS) technology for the consumer, automotive, communications and medical markets.

Basis of Presentation

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

In the opinion of the Company s management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2005.

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

Liquidity

The Company s consolidated financial statements have been prepared assuming the Company will continue as a going concern. Because the Company has had recurring losses and at June 30, 2005 has deficiencies of working capital and stock holders equity of approximately $865,000 and $485,000 respectively, there is substantial doubt as to the Company s ability to continue as a going concern. The Company believes that its current working capital will be sufficient to fund its capital and operational requirements at least through June 30, 2006. See Note 13 Subsequent Events- $2 million financing. The financial statements do not include any adjustments to reflect the possible future effects of recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

The continuance of the Company is highly dependent upon its ability to successfully develop and market both its DDX digital amplifier and MEMS technologies and raise additional funds for such purposes. The Company may also consider the sale of assets to raise additional funds. There can be no assurance, however, that the Company will be able to raise the funds that it needs to continue its operations or that additional funds will be available to the Company on acceptable terms, if at all.

In May 2005, the Company received 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, President and Chairman of the Board. These loans are payable upon demand and are 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.

See Note 13 - Subsequent Events - for information on the $2 million financing completed on August 11, 2005.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 (SAB 104), Revenue Recognition in Financial Statements: Revenue Recognition , which states that revenue should be recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The following policies apply to the Company s two major product sales categories for revenue recognition. Sales to end users: Revenue is recognized under the Company s standard terms and conditions of sale, title and risk of loss transfer to the customer at the time products are shipped either directly to the customer or the customer s representative/freight forwarder. Sales to Distributors: From time to time, the Company provides certain incentives such as stock rotation, price protection and other incentives to its Distributors. See Note 12 - Restatement. The Company accrues the estimated cost of post-sale obligations including product warranty returns, based on historical experience. To date the Company has experienced minimal warranty returns.

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

Loss Per Share

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

Research and Development

Costs for research and development are expensed as incurred.

Inventories

Inventories are stated at the lower of cost on a first-in, first-out basis or market. This policy requires the Company to make estimates regarding the market value of the Company s inventory, including an assessment of excess or obsolete inventory. The Company determines excess and obsolete inventory based on an estimate of the future demand and estimated selling prices for the Company s products within a specified time horizon, generally 12 to 24 months. The estimates the Company uses for expected demand are also used for near-term capacity planning and inventory purchasing and are consistent with the Company s revenue forecasts. Actual demand and market conditions may differ from those projected by the Company s management. If the Company s unit demand forecast is less that the Company s current inventory value, the Company will be required to take additional excess inventory charges or write-downs to net realizable value which will decrease the Company s gross margin and net operating results in the future. During the three and six months ended June 30, 2005, the Company recorded a provision for inventory losses of approximately $243,000 and $321,000, respectively, to account for slow moving, excess and obsolete inventory, as well as inventories to be delivered on non-cancelable purchase commitments.

Purchase commitment losses

The Company accrues for estimated losses on non-cancelable purchase orders. The estimated losses result from anticipated future sale of products for sales prices less than the estimated cost to manufacture. For the six months ended June 30, 2005, the Company recorded an additional $150,000 excess and obsolescence provision against non-cancelable purchase commitments of approximately $1.7 million at June 30, 2005.

Property and Equipment

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

Patents

Costs incurred to register and obtain patents are capitalized and amortized on a straight-line basis over five years, their estimated useful lives.

Use of Estimates in Financial Statements

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

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

Fair value of financial instruments

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

3. Pro-forma Information - Stock Options

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

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

	Six Months Ended June 30, (unaudited)			
		2005		**2004 (Restated)**
Net loss, as reported	**$**	**(3,037,266)**	$	(1,180,049)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards *		**(1,064,268)**		(3,030,701)
Pro-forma net loss **	**$**	**(4,101,534)**	$	(4,210,750)
Loss per share:				
As reported, basic and diluted	**$**	**(0.26)**	$	(0.10)
Pro-forma, basic and diluted	**$**	**(0.35)**	$	(0.37)

	Three Months Ended June 30,			
		2005		**2004 (Restated)**
Net (loss) income, as reported	**$**	**(1,598,982)**	$	(963,321)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards *		**(532,493)**		(2,502,120)
Pro-forma net loss **	**$**	**(2,131,475)**	$	(3,465,441)
(Loss) income per share:				
As reported, basic and diluted	**$**	**(0.14)**	$	(0.08)
Pro-forma, basic and diluted	**$**	**(0.18)**	$	(0.30)

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* All awards refers to awards granted, modified, or settled in fiscal periods beginning after December 15, 1994 -

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awards for which the fair value was required to be measured under FAS 123.

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

4. Inventories

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

		June 30, 2005 (Unaudited)		December 31, 2004 (Audited)
Raw materials	$	**22,830**	$	24,539
Finished goods		**2,491,770**		2,143,530
Finished goods held at distributors		**1,604,470**		1,734,955
	$	**4,119,070**	$	3,903,024
Less reserve for slow moving, excess and obsolete inventory		**(1,498,583)**		(1,177,716)
Net Inventory	$	**2.620,487**	$	2,725,308

5. Property and Equipment

Property and equipment at June 30, 2005 and December 31, 2004 are comprised of the following:

		June 30, 2005 (Unaudited)		December 31, 2004 (Audited)
Equipment	$	**447,266**	$	390,342
Software		**35,634**		35,634
Furniture and fixtures		**36,472**		31,210
Leasehold improvements		**22,954**		22,954

	$	**542,326**	$	480,140
Less accumulated depreciation		**(408,193)**		(376,951)
	$	**134,133**	$	103,189

Depreciation expense was $16,880 and $31,242 for the three and six months ended June 30, 2005, respectively.

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

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

6. Accrued Expenses

	June 30, 2005 (Unaudited)	**December 31, 2004 (Audited)**
Accrued audit and accounting expenses	**$ 121,329**	$ 165,000
Accrued legal expenses	**91,186**	37,000
Other accrued expenses	**65,782**	10,000
	$ 278,297	$ 212,000

7. Deferred Contract Revenue

During September 2004, the Company entered into a funding agreement with United Binational Industrial Research and Development (BIRD) Foundation of Israel. This agreement will provide funds to the Company for industrial research and development activities. The agreement will provide up to a maximum of $560,000 of which the Company will receive $280,000, and another partner in the agreement will receive the remainder. The Company has recorded $101,379 in deferred contract revenue and for the six months ended June 30, 2005 recorded $23,101 as an offset to research and development expenses.

8. Stockholders Equity

Stock Options

During the three months ended June 30, 2005, the Board of Directors awarded to certain employees options to purchase 316,000 shares at exercise prices ranging from $1.08 to $1.27 per share. These options were granted under the 1997 Employee, Director and Consultant Stock Option Plan. The options vest over five years beginning at the first anniversary of the date of grant.

9. Related Party Transactions

The Company rents its facility from an entity controlled by a stockholder for $4,400 per month pursuant to a lease that expires on December 31, 2005. See Note 1 Liquidity - for additional related party transactions.

10. License Agreement

On February 13, 2001, the Company signed an exclusive license agreement with ST Microelectronics NV (ST) of the Netherlands. The agreement calls for ST to use certain intellectual property rights owned or controlled by the Company to commercialize and sell related products utilizing such technology. In consideration for this license, ST paid to the Company a one-time license fee of $1.6 million in cash and a $400,000 credit for future design services completed in 2004.

The Company will also receive royalties based on certain formulas, as defined in the agreement. This agreement has no expiration date; however, either party may cancel the agreement upon advance notice in certain circumstances as defined in the agreement. Total royalties received under this Agreement were approximately $150,000 and $251,000 for the three and six months ended June 30, 2005. For the restated three and six months ended June 30, 2004 total royalties received were approximately $238,000 and $444,000, respectively.

On May 3, 2005, the Company signed an amendment to the license agreement with STMicroelectronics, whereby; 1) the DDX technology license rights were changed from an exclusive license to a non-exclusive license, 2) the license royalty terms were modified and 3) terms related to Apogee interest transfers were modified. The effective date for terms 1 and 3 above was January 1, 2005 and for item 2 was January 1, 2004.

11. Concentrations

During the three months ended June 30, 2005, the Company derived approximately 28% of its total revenue from two end users and 31% of total revenue as a result of sell through by two distributors.

During the three months ended June 30, 2005, the Company derived approximately 29% of its product revenue from two end users and 35% of product revenue as a result of sell through by two distributors.

During the six months ended June 30, 2005, the Company derived approximately 23% of its total revenue from two end users and 44% of total revenue as a result of sell through by two distributors.

During the six months ended June 30, 2005, the Company derived approximately 15% of its product revenue from one end user and 50% of product revenue as a result of sell through by two distributors.

During the restated three months ended June 30, 2004, the Company derived approximately 18% of its total revenue from one end user and 36% of total revenue as a result of sell through by two distributors.

During the restated three months ended June 30, 2004, the Company derived approximately 13% of its product revenue from one end user and 65% of product revenue as a result of sell through by two distributors.

During the restated six months ended June 30, 2004, the Company derived approximately 38% of its total revenue from two end users and 19% of total revenue as a result of sell through by one distributor.

During the restated six months ended June 30, 2004, the Company derived approximately 28% of its product revenue from one end user and 39% of product revenue as a result of sell through by two distributors.

Four of the Company s customers accounted for approximately 77% of the total accounts receivable balance at June 30, 2005.

Four of the Company s customers accounted for approximately 83% of the total accounts receivable balance at restated June 30, 2004.

Substantially all of the Customer sales were to end users or distributors located in Asia and Europe for both the three- and six-month periods ended June 30, 2005 and restated June 30, 2004.

Two of the Company s major vendors accounted for approximately 96% of total purchases for the six months ended June 30, 2005.

One of the Company s major vendors accounted for approximately 99% of total purchases for the six months ended June 30, 2004.

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

12. Supplementary Financial Information (unaudited)

Restatement of Previously Reported Quarterly Financial Information

As a result of management s decision to change the accounting method for recognizing product revenue from distributors to a sell through or point of sale (POS) method and the internal investigation concerning the circumstances surrounding the appropriate accounting for product revenue, the Audit Committee of the Board of Directors has determined that the Company restate certain financial information previously reported in the Company s Form 10-QSB for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004.

The following table provides a reconciliation of amounts previously reported in the Company s Form 10-QSB for the quarter ended June 30, 2004 with amounts previously adjusted for the restatement as a result of the change in accounting policy and as a result of the Audit Committee s investigation. In reviewing the restated Consolidated Statement of Operations, it should be taken into consideration that the restated financial information reflects unaudited adjustments.

CONDENSED BALANCE SHEETS

(in thousands)

	June 30, 2004 (Unaudited)		
	Previously Reported (1)	Restatement Adjustment (2)	Restated Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 1,693	$	$ 1,693
Accounts receivable, net	2,637	(1,845)	792
Inventories, net	937	1,798	2,735
Prepaid expenses and other current assets	257		257
Deferred tax asset	195	(195)	
Total current assets	5,719	(242)	5,477
Property and equipment, net	121	0	121
Other assets			
Patents, net	107		107
Other intangible assets	173	(59)	114
	$ 6,120	$ (301)	$ 5,819
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Accounts payable and accrued expenses	$ 710	$ 11	$ 721
Current maturities of capital lease obligations			
Deferred distributor revenue		2,012	2,012
Deferred contract Revenue			
Deferred warranty			
Total current liabilities	710	2,023	2,733
Stockholders equity			
Common stock	114		114
Additional paid-in capital	16,403		16,403
Accumulated deficit	(11,107)	(2,324)	(13,431)
Total stockholders equity	5,410	(2,324)	3,086
	$ 6,120	$ (301)	$ 5,819

(1) As previously reported in the Company s Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004.

(2) See paragraph following restatement tables for a description of the restatement adjustments.

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)

	Three Months Ended June 30, 2004 (Uaudited)	**Six Months Ended June 30, 2004 (Unaudited)**