INSURED MUNICIPAL INCOME FUND INC
Form 497
December 19, 2003

PROSPECTUS December 17, 2003

$60,000,000

Insured Municipal Income Fund Inc.

600 Shares Series E
600 Shares Series F
Auction Preferred Shares
Liquidation Preference $50,000 Per Share

Insured Municipal Income Fund Inc. (the "Fund") is offering 600 Auction Preferred Shares, Series E ("APS Series E") and 600 Auction Preferred Shares, Series F ("APS Series F"). APS Series E and APS Series F have a liquidation preference of $50,000 per share, plus any accumulated, unpaid dividends. APS Series E and APS Series F also have priority over the Fund's Common Stock as to distribution of assets as described in this prospectus. It is a condition of closing this offering that APS Series E and APS Series F each be offered with a rating of "Aaa" from Moody's and "AAA" from S&P. The Fund currently has outstanding 800 shares of each of APS Series A, B, C, and 600 shares of APS Series D.

Investment Objective. The Fund is a diversified, closed-end management investment company. The Fund's investment objective is to achieve a high level of current income that is exempt from federal income tax, consistent with the preservation of capital. To achieve this objective, the Fund normally invests substantially all of its assets in a diversified portfolio of Municipal Obligations. Under normal circumstances, the Fund invests at least 80% of its net assets in insured Municipal Obligations, the income from which is exempt from regular federal income tax. "Insured Municipal Obligations" are Municipal Obligations that are insured as to the timely payment of both principal and interest by an entity that, at the time of investment, has a claims-paying ability rated Aaa by Moody's Investors Services, Inc. ("Moody's"), AAA by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), or an equivalent rating from another nationally recognized statistical rating organization ("NRSRO" or "rating agency"). The Fund may invest up to 20% of its net assets in Municipal Obligations that are not insured but that are, at the time of investment, (1) backed by an escrow or trust account containing sufficient US government or US government agency securities to ensure the timely payment of principal and interest; (2) guaranteed as to timely payment of principal and interest by an entity which has a credit rating of Aaa by Moody's, AAA by S&P or an equivalent rating by another NRSRO; or (3) not insured, guaranteed or backed by escrows but rated Aaa by Moody's, AAA by S&P or an equivalent rating by another NRSRO. All the Municipal Obligations described above will have, at the time of investment, ratings of Aaa from Moody's, AAA from S&P or equivalent ratings from another NRSRO or (with respect to the Municipal Obligations described in (1) above), if unrated, will have been determined by the investment advisor to be of comparable quality to Municipal Obligations that have received such ratings. There is no guarantee that the Fund will achieve its investment objective.

Investment Advisor. UBS Global Asset Management (US) Inc. ("UBS Global AM") serves as investment advisor and administrator to the Fund. The address of the Fund is 51 West 52nd Street, New York, New York 10019-6114, and its telephone number is 212-882 5000.

Risks. Insurance does not protect the market value of Municipal Obligations or the net asset value of the Fund. In addition, investing in APS involves certain risks. See "Investment Objective and Policies" and "Investment Risks."

The minimum purchase amount of the APS is $50,000.

As with all investment companies, neither the Securities and Exchange Commission ("SEC") nor any state securities commission has approved or disapproved the fund's shares or determined whether this prospectus is complete or accurate. To state otherwise is a crime.

	Price to public		Sales load(1)	
Per share	$ 50,000	$	500	$
Total	$60,000,000	$	600,000	$

(1) The Fund and UBS Global AM have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."
(2) Before deducting estimated offering expenses of $248,400 payable by the Fund.

UBS Investment Bank

(CONTINUED FROM PREVIOUS PAGE)

This Prospectus concisely sets forth certain information an investor should know before investing and should be retained for future reference. A Statement of Additional Information, dated December 17, 2003, containing additional information about the Fund has been filed with the Securities and Exchange Commission ("SEC") and is incorporated by reference into this Prospectus. A copy of the SAI can be obtained without charge by writing to the Fund or by calling toll-free 1-800-647 1568 or from the SEC's website at http://www.sec.gov.

The APS do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

Dividends on shares of each series of APS, to the extent payable from tax-exempt income earned on the Fund's investments, will be exempt from federal income tax in the hands of APS Stockholders, subject to the possible application of the federal alternative minimum tax. The Fund is required to allocate net capital gains and other taxable income, if any, proportionately between shares of Common Stock and the APS. The Fund may give notice of the amount of any dividend income with respect to each series of the APS that is taxable for federal income tax purposes in advance of the related Auction, as described in more detail below. The amount of taxable income, if any, allocable to the APS will depend on the amount of any such income realized by the Fund. See "Taxation."

The PER ANNUM dividend rate for the initial dividend period will be (i) 1.10% PER ANNUM for APS Series E and (ii) 1.10% PER ANNUM for APS Series F. For each Subsequent Dividend Period, the dividend rate on shares of APS Series E and APS Series F will be based on a rate set at Auction, except as provided in this Prospectus. See "Description of APS--Dividends and Dividend Periods."

Prospective purchasers should carefully review the Auction procedures described in this Prospectus and should note that (i) a bid or sell order constitutes a commitment to purchase or sell APS based upon the results of an Auction, (ii) Auctions will be conducted through telephone or other electronic communications and (iii) settlement for purchases and sales will be on the next business day following an Auction.

Dividends on shares of each series of APS shall accumulate at the applicable rate PER ANNUM from the date of original issue and, except as provided below, shall be payable in the case of APS Series E on Monday, January 12, 2004 and each Monday thereafter, and in the case of APS Series F on Tuesday, January 6, 2004 and each Tuesday thereafter. The first Auction Dates for APS Series E and APS Series F are scheduled for Friday, January 9, 2004 and Monday, January 5, 2004, respectively. Subsequent Dividend Periods shall generally be seven days for each of APS Series E and APS Series F. However, the Fund, subject to certain conditions, may designate any dividend period of any APS series as a special dividend period, which shall be such number of consecutive days, whole months or whole years as the Fund's board of directors ("Board") shall specify, subject to certain conditions. The shares of each series of APS are redeemable by the Fund as described herein. See "Description of APS--Redemption."

Prior to this offering, there has been no market for shares of APS Series E and APS Series F. You may buy or sell APS only through an order placed at an Auction or to or through a broker-dealer or to a person that has delivered a signed Master Purchaser's Letter to the Auction Agent. APS Series A, B, and C have been outstanding since 1993, and APS Series D has been outstanding since 1994.

The APS offered hereby are offered by UBS Securities LLC, subject to its receipt and acceptance of and right to reject any order in whole or in part. It is expected that one certificate for each series of APS will be delivered to or through the facilities of Depository Trust Company on or about December 22, 2003.

You should rely only on the information contained or incorporated by reference in this Prospectus. Neither the Fund nor UBS Global AM has authorized anyone to provide you with different information. You should not assume that the information contained in this prospectus is accurate as of any date other that the date on the front of this prospectus.

The APS do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other federal, state, or municipal government or agency.

The Fund Is Not a Complete or Balanced Investment Program.

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PROSPECTUS SUMMARY

THIS IS ONLY A SUMMARY. THIS SUMMARY MAY NOT CONTAIN ALL OF THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING IN APS SERIES E OR APS SERIES F. YOU SHOULD READ THE MORE DETAILED INFORMATION CONTAINED IN THIS PROSPECTUS AND THE STATEMENT OF ADDITIONAL INFORMATION.

THE FUND.. Insured Municipal Income Fund Inc. is a diversified, closed-end management investment company. Insured Municipal Income Fund Inc. i referred to simply as "the Fund" throughout t prospectus. The Fund's Common Stock trades on New York Stock Exchange under the symbol "PIF See "Description of Common Stock." As of September 30, 2003, the Fund had outstanding 20,628,363 shares of Common Stock, 800 shares each of Auction Preferred Shares (APS) Series B, C, and 600 shares of APS Series D. As of September 30, 2003, the Fund's total net asse were $473,084,088.

INVESTMENT OBJECTIVE AND POLICIES................ The Fund's investment objective is to achieve high level of current income that is exempt f federal income tax, consistent with the preservation of capital. There is no assuranc that the Fund will achieve its investment objective.

The Fund normally invests substantially all o assets in a diversified portfolio of Municipa Obligations. Under normal circumstances, the invests at least 80% of its net assets in ins Municipal Obligations, the income from which exempt from regular federal income tax. The F normally invests in intermediate to longer-te Municipal Obligations. However, in order to i cash reserves or when, in the opinion of the investment advisor, no suitable intermediate longer-term Municipal Obligations are availab the Fund may invest up to 20% of its net asse high quality short-term Municipal Obligations are rated, at the time of investment, no lowe than MIG-2 by Moody's, SP-2 by S&P or the equivalent by another NRSRO or, if unrated, t are determined by the investment advisor to b comparable quality to Municipal Obligations t are rated at least MIG-2 or SP-2. These short term Municipal Obligations may include variab floating rate demand notes and similar instru that trade as short-term obligations. For temporary defensive purposes, the Fund may in without limit in such short-term Municipal Obligations. In addition, if in the opinion o investment advisor no suitable short-term Municipal Obligations are available, the Fund temporarily may hold cash and, with respect t to 20% of its net assets, invest in taxable m market instruments. See "Investment Objective Policies," "Investment Risks," "Taxation" and Appendix.

INSURED MUNICIPAL OBLIGATIONS.................... Insured municipal obligations held by the Fun will be insured as to their scheduled payment principal and interest under (i) an insurance policy obtained by the issuer or underwriter the municipal obligation at the time of its original issuance ("original issue insurance" (ii) an insurance policy obtained by the Fund

a third party subsequent to the municipal bon original issuance ("secondary market insuranc or (iii) another municipal insurance policy purchased by the Fund ("portfolio insurance") This insurance does not protect the market va of the municipal obligations it covers or the asset value of the Fund.

INVESTMENT ADVISOR AND ADMINISTRATOR............. UBS Global AM, an indirect, wholly owned subsidiary of UBS AG, is the Fund's investmen advisor and administrator. UBS Global AM prov investment advisory and portfolio management services to investment companies and other clients. As investment advisor and administra UBS Global AM is entitled to receive from the a fee, computed weekly and paid monthly, in a amount equal to an annual rate of 0.90% of th Fund's average weekly net assets. UBS Global has agreed to waive a portion of its fee in t amount of 0.20% of average weekly net assets, effectively reducing the annual fee paid to U Global AM by the Fund to 0.70% of average wee net assets. This waiver will continue indefin unless the Fund's Board of Directors agrees t change. See "Management of the Fund."

THE OFFERING .... The Fund is offering its preferred stock, designated as APS Series E and APS Series F, purchase price of $50,000 per share. Shares o Series E and APS Series F are being made avai by UBS Securities LLC.

AUCTION PREFERRED SHARES .... The Fund has outstanding 800 shares of each o Series A, B, and C, and 600 shares of APS Ser D, having an aggregate liquidation value of $150,000,000. Shares of APS Series E and APS Series F are very similar to APS Series A, B, and D. The issuance of APS Series E and APS S F will increase the total assets of the Fund. APS pay dividends at rates that are adjusted relatively short periods of time and that ref prevailing short-term, tax-exempt interest ra The proceeds of APS offerings are invested in longer-term Municipal Obligations, which typi bear interest at rates that are higher than s term, tax-exempt interest rates. The APS offe hereby are expected to receive ratings of Aaa Moody's and AAA from S&P. See "Description of APS."

RISK FACTORS SUMMARY .... Risk is inherent in all investing. Therefore, before investing in the APS, you should consi certain risks carefully. The primary risks of investing in the APS are:

- if an Auction fails, you may not be able t sell some or all of your shares;
- the Fund's use of leverage creates special risks not associated with unleveraged fund having similar investment objectives and policies, including the possibility of volatility of the APS's asset coverage;
- you may not be able to sell your APS betwe Auctions, or, if you do, you may not obtai full amount of your purchase price;

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- because of the nature of the market for AP you may receive less than the price you pa for your APS if you sell them outside of t Auction, especially when market interest r are rising;
- a rating agency could suspend, withdraw or downgrade the rating assigned to the APS, could affect liquidity;
- the Fund may be forced to redeem your APS meet regulatory or rating agency requireme or may voluntarily redeem your APS in cert circumstances;
- in extraordinary circumstances, the Fund m not earn sufficient income from its invest to pay dividends;
- if interest rates rise, the value of the F

investment portfolio will decline, reducin
asset coverage for the APS;
- if an issuer of a Municipal Obligation in the Fund invests experiences financial difficulty or defaults, there may be a neg impact on the income and assets of the Fun portfolio; and
- the Fund may invest up to 20% of its net a in Municipal Obligations that are not insu but that are of high quality at the time o purchase as noted above.

For additional risks of investing in the Fund "Investment Objective and Policies" and "Investment Risks."

TRADING MARKET.................................. APS are not listed on an exchange. Instead, y may buy or sell APS through an Auction that normally is held weekly, by submitting orders or through a Broker-Dealer or other person th has delivered a signed Master Purchaser's Let to the Auction Agent.

The Broker-Dealers may maintain a secondary trading market in the APS outside of Auctions They have no obligation to do so, however, an there can be no assurance that a secondary ma for the APS will develop or, if it does devel that it will provide holders with liquidity. Series E and APS Series F will not be registe on any stock exchange or on The Nasdaq Stock Market.

The first Auction Dates for APS Series E and Series F are January 9, 2004 and January 5, 2 respectively, and each subsequent Auction wil normally be held on each Friday and Monday thereafter, resepectively, provided that the subject to certain conditions, may designate Subsequent Dividend Period as a Special Divid Period, which shall be such number of consec- utive days, whole months or whole years as th Board of Directors shall specify, subject to certain conditions. The start date for subseq dividend periods will normally be the busines following the Auction Dates, unless the then-current dividend period is a special div period.

DIVIDENDS AND DIVIDEND PERIODS.................. The table below shows the dividend rate for t initial dividend periods on APS Series E and Series F. For subsequent dividend periods, AP will pay dividends based on a rate set at Auc tion, normally held weekly. In most instances dividends are paid weekly, on the day followi the end of the dividend period. The rate set

Auction will not exceed the Maximum Rate. See "Description of APS--Dividends and Dividend Periods."

In addition, the table below also shows the d from which dividends on the APS will accumula the initial rate, the Dividend Payment Date f the initial dividend period, and the day on w dividends will normally be paid. If the day o which dividends otherwise would be paid is no Business Day, then your dividends will be pai the next following Business Day.

Finally, the table below shows the number of of the initial dividend period for the APS. Subsequent dividend periods generally will be seven days. The Dividend Payment Date for spe dividend periods of more than seven days will set out in the notice designating a special dividend period. See "Description of APS--Dividends and Dividend Periods."

	INITIAL DIVIDEND RATE	DATE OF ACCUMULATION AT INITIAL RATE	
Series E	1.10%	December 22, 2004	Ja
Series F	1.10%	December 22, 2004	Ja

	NUMBER OF DAYS OF INITIAL DIVIDEND PERIOD
Series E	21
Series F	15

SPECIAL TAX CONSIDERATIONS........................ Because under normal circumstances the Fund w invest substantially all of its assets in municipal bonds, the income you receive will ordinarily be exempt from federal income tax. taxable income or gain earned by the Fund wil allocated proportionately to holders of APS a Common Stock, based on the percentage of tota dividends paid to each class for that year. Accordingly, a portion of certain specified A dividends may be taxable to holders of APS. U certain circumstances, the Fund will be requi to pay additional amounts to holders of APS i order to offset the federal income tax effect the taxable income so allocated. See "Taxatio and "Description of APS--Dividends and Divide Periods."

RATINGS... APS Series E and APS Series F are expected to issued with a rating of "Aaa" from Moody's an "AAA" from S&P. In order to maintain these ratings, the Fund must own portfolio securiti a sufficient value and with adequate credit quality to meet the rating agencies' guidelin See "Description of APS--Rating Agency Guidel and Asset Maintenance."

REDEMPTION.. The Fund may be required to redeem APS if, fo example, the Fund does not meet an asset cove ratio required by law or

fails to correct a failure to meet a rating a guideline in a timely manner. The Fund volunt may redeem APS under certain conditions. See "Description of APS--Redemption" and "Descrip of APS--Rating Agency Guidelines and Asset Maintenance."

LIQUIDATION PREFERENCE............................ The liquidation preference for shares of APS Series E and APS Series F will be $50,000 per share plus accumulated but unpaid dividends. "Description of APS--Liquidation Preference."

VOTING RIGHTS..................................... The holders of all outstanding series of APS, voting as a separate class, have the right to elect at least two directors of the Fund at a times. Such holders also have the right to el majority of the directors in the event that t years' dividends on the preferred shares are unpaid. In each case, the remaining directors be elected by holders of Common Stock and all outstanding series of APS, voting together as single class. The holders of all outstanding series of APS will vote as a separate class o classes on certain other matters as required the Fund's Articles of Incorporation, the Investment Company Act of 1940, as amended, a Maryland law. See "Description of APS--Voting Rights," and "Description of Common Stock--Ce Anti-Takeover Provisions of the Articles of Incorporation."

FINANCIAL HIGHLIGHTS

The following financial highlights tables are intended to help you understand the Fund's financial performance for the past ten years, with respect to its Common Stock and with respect to its currently outstanding APS. Certain information reflects financial results for a single share of Common Stock, or single share of APS, respectively. In the first table, "total investment return" represents the rate that an investor would have earned on an investment in the Fund's Common Stock.

The information in the financial highlights for the five years ended March 31, 2003 has been audited by Ernst & Young LLP, independent auditors, whose report appears in the Fund's Annual Report to Shareholders. The Fund's financial statements are included in the Fund's Annual and Semi-Annual Reports to Shareholders. You may obtain the Fund's Annual and Semi-Annual Reports to Shareholders without charge by calling 1-800-762 1000.

	FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)	FOR THE YEARS ENDED MARCH 31, 2003	2002	2001	2000	1999
NET ASSET VALUE, BEGINNING OF PERIOD....	$ 15.76	$ 15.15	$ 15.30	$ 14.54	$ 15.58	$ 15.40
Net investment income....	0.43	0.97	1.01	1.04	1.04	1.02
Net realized and unrealized gains (loss) from investment activities............	(0.07)	0.58	(0.26)	0.79	(1.05)	0.18
Common share equivalent of dividends paid to auction preferred stockholders from net investment income......	(0.04)	(0.10)	(0.17)	(0.31)	(0.26)	(0.25)
Net increase (decrease) from operations applicable to common stockholders..........	0.32	1.45	0.58	1.52	(0.27)	0.95
Dividends paid to common stockholders from net investment income......	(0.42)	(0.84)	(0.73)	(0.76)	(0.77)	(0.77)
NET ASSET VALUE, END OF PERIOD................	$ 15.66	$ 15.76	$ 15.15	$ 15.30	$ 14.54	$ 15.58
MARKET VALUE, END OF PERIOD................	$ 14.03	$ 13.98	$ 13.42	$ 13.11	$ 12.00	$ 14.25
TOTAL INVESTMENT RETURN(1).............	3.37%	10.61%	8.04%	16.02%	(10.49)%	10.96%
RATIO TO AVERAGE NET ASSETS ATTRIBUTABLE TO COMMON SHARES:						
Total expenses, net of waivers from advisor.............	1.33%*	1.41%	1.42%	1.44%	1.44%	1.46%
Total expenses, before waivers from						

advisor.............	1.55%*	1.60%	1.61%	1.63%	1.63%	1.65%
Net investment income before auction preferred shares dividends............	5.47%*	6.23%	6.57%	7.00%	7.05%	6.58%
Auction preferred shares dividends from net investment income...............	0.45%*	0.61%	1.11%	2.10%	1.75%	1.60%
Net investment income available to common stockholders, net of waivers from advisor.............	5.02%*	5.62%	5.46%	4.90%	5.30%	4.98%
Net investment income available to common stockholders, before waivers from advisor.............	4.80%*	5.43%	5.27%	4.71%	5.11%	4.79%
SUPPLEMENTAL DATA:						
Net assets applicable to common stockholders, end of period, 1000's.......	$323,084	$325,060	$312,552	$315,568	$299,876	$321,361
Portfolio turnover.....	26%	24%	14%	2%	8%	5%
Asset coverage per share of auction preferred shares, end of period...........	$157,695	$158,353	$154,184	$155,189	$149,959	$157,120

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(1) Total investment return is calculated assuming a $10,000 purchase of Common Stock at the current market price on the first day of each period reported and a sale at the current market price on the last day of each period reported, and assuming reinvestment of dividends and other distributions to Common Stockholders at prices obtained under the Fund's Dividend Reinvestment Plan. Total investment return does not reflect brokerage commissions or taxes that a Stockholder would pay on Fund distributions.

* Annualized

	FOR THE YEARS ENDED MARCH 31,				FOR THE PERIOD JUNE 8, 1993+ TO MARCH 31,
	1998	1997	1996	1995	1994
NET ASSET VALUE, BEGINNING OF PERIOD....	$ 14.10	$ 14.11	$ 13.42	$ 13.42	$ 15.00
Net investment income....	1.03	1.05	1.06	1.02**	0.73
Net realized and unrealized gains (loss) from investment activities............	1.30	(0.03)	0.67	0.04**	(1.44)
Common share equivalent					

of dividends paid to auction preferred stockholders from net investment income......	(0.26)	(0.26)	(0.28)	(0.25)	(0.13)
Net increase (decrease) from operations applicable to common stockholders...........	2.07	0.76	1.45	0.81	(0.84)
Dividends paid to common stockholders from net investment income......	(0.77)	(0.77)	(0.76)	(0.79)	(0.60)
Distributions paid to common stockholders in excess of net investment income......	0.00	0.00	0.00	(0.02)	0.00
Underwriting and offering costs incurred with the preferred stock offering charged to common stock...........	0.00	0.00	0.00	0.00	(0.14)
NET ASSET VALUE, END OF PERIOD.................	$ 15.40	$ 14.10	$ 14.11	$ 13.42	$ 13.42
MARKET VALUE, END OF PERIOD.................	$ 13.56	$ 12.00	$ 12.13	$ 11.13	$ 13.00
TOTAL INVESTMENT RETURN(1)..............	19.70%	5.45%	16.13%	(8.17)%	(9.74)%
RATIO TO AVERAGE NET ASSETS ATTRIBUTABLE TO COMMON SHARES:					
Total expenses, net of waivers from advisor.............	1.49%	1.38%	1.33%	1.74%	1.57%*
Total expenses, before waivers from advisor.............	1.74%	1.76%	1.65%	1.74%	1.57%*
Net investment income before auction preferred shares dividends............	6.84%	7.37%	7.45%	7.94%	5.92%*
Auction preferred shares dividends from net investment income..............	1.75%	1.81%	1.97%	2.02%	0.98%*
Net investment income available to common stockholders, net of waivers from advisor.............	5.09%	5.56%	5.48%	5.92%	4.94%
Net investment income available to common stockholders, before waivers from advisor.............	4.84%	5.18%	5.16%	5.92%	4.94%
SUPPLEMENTAL DATA:					
Net assets applicable to common					

stockholders, end of period, 1000's.......	$467,761	$440,758	$441.040	$426,795	$333,825
Portfolio turnover.....	6%	0%	4%	4%	8%
Asset coverage per share of auction preferred shares, end of period...........	$155,920	$146,919	$147,013	$142,265	$139,094

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(1) Total investment return is calculated assuming a $10,000 purchase of Common Stock at the current market price on the first day of each period reported and a sale at the current market price on the last day of each period reported, and assuming reinvestment of dividends and other distributions to Common Stockholders at prices obtained under the Fund's Dividend Reinvestment Plan. Total investment return does not reflect brokerage commissions or taxes that a Stockholder would pay on Fund distributions.

* Annualized

** Calculated using the average share method.

\+ Commencement of Operations

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The following information relates to the APS outstanding as of the end of the fiscal years indicated.

SENIOR SECURITIES	YEAR	TOTAL AMOUNT OUTSTANDING*	ASSET COVERAGE PER UNIT**	INVOLUNTARY LIQUIDATING PREFERENCE PER UNIT
APS Series A, B, C, D	2003	$150,000,000	$158,353	$50,000
APS Series A, B, C, D	2002	$150,000,000	$154,184	$50,000
APS Series A, B, C, D	2001	$150,000,000	$155,189	$50,000
APS Series A, B, C, D	2000	$150,000,000	$149,959	$50,000
APS Series A, B, C, D	1999	$150,000,000	$157,120	$50,000
APS Series A, B, C, D	1998	$150,000,000	$155,920	$50,000
APS Series A, B, C, D	1997	$150,000,000	$146,919	$50,000
APS Series A, B, C, D	1996	$150,000,000	$147,013	$50,000
APS Series A, B, C, D	1995+	$150,000,000	$142,265	$50,000
APS Series A, B, C	1994++	$120,000,000	$139,094	$50,000

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* Based on liquidation value. Number of APS shares outstanding did not change after the following issue dates for APS Series A, B, and C, August 12, 1993; and for APS Series D, November 28, 1994.

** Asset Coverage Per Unit is the same for each APS Series.

*** Average Market Value Per Unit is the same for each APS Series and is calculated by multiplying $50,000 by the result obtained by dividing (a) the average monthly market value of the Common Stock during the fiscal year by (b) the average of the amount of APS outstanding at the end of such month.

\+ Reflects the full fiscal year for APS Series A, B, and C and the period from November 28, 1994 (date of issuance) to March 31, 1995 for APS Series D.

++ Reflects the period from August 12, 1993 (date of issuance of APS Series A, B and C) to March 31, 1994.

PRIVACY PRINCIPLES OF THE FUND

The Fund is committed to protecting the personal information it collects about individuals who are prospective, current or former investors. The following information is provided to help you understand how the Fund protects personal information, and why, in certain cases, the Fund may share information with certain other parties.

The Fund may collect personal information to process requests and transactions and to provide customer service. The Fund limits access to personal information to those individuals who need to know that information in order to process transactions and service accounts. Such individuals are required to maintain and protect the confidentiality of personal information. The Fund does not disclose any personal information it receives to anyone, except for business purposes, such as to facilitate the servicing of accounts, or otherwise as permitted or required by law. The Fund maintains physical, electronic and procedural safeguards to protect personal information, and requests the same from other companies, affiliated and unaffiliated, that provide services to the Fund and its Stockholders.

THE FUND

Insured Municipal Income Fund Inc. (the "Fund") is a diversified, closed-end management investment company registered under the Investment Company Act of 1940 ("1940 Act"). The Fund was incorporated in the State of Maryland on February 18, 1993. The Fund commenced operations on June 7, 1993, after an initial public offering of its Common Stock. The Fund issued APS Series A, B, and C in 1993, and APS Series D in 1994. As of September 30, 2003, the Fund had 20,628,363 shares of Common Stock issued and outstanding. As of September 30, 2003, the Fund's total net assets were

$475,060,118, of which $120,000,000 was due to APS Series A, B, and C ($40,000,000 per series) and $30,000,000 was due to APS Series D.

The Fund's Common Stock is traded on the New York Stock Exchange, Inc. ("NYSE") under the symbol "PIF." The Common Stock and the APS are collectively referred to herein as "Shares," and the holders thereof as "Stockholders." The Fund's principal office is located at 51 West 52nd Street, New York, New York 10019-6114, and its telephone number is 212-882 5000.

USE OF PROCEEDS

The net proceeds of this offering are estimated to be approximately $59,151,600 after payment of underwriting discounts and offering expenses. Expenses related to the issuance of APS Series E and APS Series F will be borne by the Fund and will reduce the net asset value of the Common Stock. The Fund expects to invest the proceeds in accordance with the Fund's investment objective and policies as soon as practicable, but in no event later than three months from the closing of this offering. Pending such investment, the Fund may invest the proceeds in high quality, short-term, tax-exempt or taxable (if necessary) money market securities, or in high quality Municipal Obligations with relatively low volatility (such as pre-refunded securities).

CAPITALIZATION (UNAUDITED)

The following table sets forth the unaudited actual capitalization of the Fund as of September 30, 2003 and as adjusted to give effect to the issuance of the shares of each APS series offered hereby.

COMPOSITION OF NET ASSETS:	ACTUAL	AS ADJUSTED
Stockholders Equity:		
Preferred Stock, $.001 par value per share (3,000 shares of APS authorized, issued and outstanding, actual, at $50,000 per share liquidation preference, and 4,200 shares of APS authorized, issued and outstanding as adjusted for issuance of APS Series E and APS Series F, at $50,000 per share liquidation preference)......................	$150,000,000	$210,000,000
Common Stock, $.001 par value; total 199,997,000 shares authorized, actual, and total 199,995,800 shares authorized, as adjusted; 20,628,363 shares issued and outstanding......................	20,628	20,628
Paid-in surplus......................	302,679,050	301,830,650*
Undistributed net investment income...	2,805,296	2,805,296
Accumulated net realized losses from investment transactions............	(9,193)	(9,193)
Net unrealized appreciation of investments........................	17,588,307	17,588,307
Net Assets.......................	$473,084,088	$532,235,688
Net Assets Available to holders of Common Stock...................	$323,084,088	$322,235,688

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* Net of underwriting discounts and offering expenses relating to the APS Series E and APS Series F aggregating $848,400.

PORTFOLIO COMPOSITION

As of September 30, 2003, approximately 87.98% of the Fund's total assets was invested in long-and intermediate-term Municipal Obligations and approximately 12.02% was invested in short-term securities and cash. The following table sets forth certain information with respect to the composition of the Fund's investment portfolio as of September 30, 2003. This information is derived from the Fund's unaudited financial information as of September 30, 2003, which is included in the Statement of Additional Information ("SAI") through incorporation by reference from the Fund's Semi-Annual Report, and should be read in connection therewith.

CREDIT RATING*	NUMBER OF ISSUES	MARKET VALUE	PERCENT

AAA/Aaa+..........................	93	$416,211,661	89.00%
Short-Term Securities.............	16	51,440,000	11.00
Total.............................	109	$467,651,661	100.00%

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* Ratings--using the higher of the rating from Moody's or from S&P. See Appendix A to the SAI. The ratings shown reflect the rating attributable directly to the Municipal Obligations or short-terms securities or, in the case of any Municipal Obligations that are covered by a Secondary Market Insurance Policy, or by a Portfolio Insurance Policy that provides the Fund with the option to obtain a comparable permanent insurance policy, the rating attributable to the claims-paying ability of the bond insurer.

\+ Includes securities that are backed by an escrow or trust containing sufficient US Government Securities to ensure the timely payment of principal and interest.

INVESTMENT OBJECTIVE AND POLICIES

The Fund's investment objective is to achieve a high level of current income that is exempt from federal income tax, consistent with the preservation of capital.

To achieve this objective, the Fund normally invests substantially all of its assets in a diversified portfolio of Municipal Obligations. Under normal circumstances, the Fund invests at least 80% of its net assets in insured Municipal Obligations, the income from which is exempt from regular federal income tax. "Insured Municipal Obligations" are Municipal Obligations that are insured as to the timely payment of both principal and interest by an entity that, at the time of investment, has a claims-paying ability rated Aaa by Moody's, AAA by S&P or an equivalent rating by another NRSRO. The Fund may invest up to 20% of its net assets in Municipal Obligations that are not insured but that are, at the time of investment, (1) backed by an escrow or trust account containing sufficient US government or US government agency securities to ensure the timely payment of principal and interest; (2) guaranteed as to timely payment of principal and interest by an entity which has a credit rating of Aaa by Moody's, AAA by S&P or an equivalent rating by another NRSRO; or (3) not insured, guaranteed or backed by escrows but rated Aaa by Moody's, AAA by S&P or an equivalent rating by another NRSRO. All the Municipal Obligations described above will have, at the time of investment, ratings of Aaa from Moody's, AAA from S&P or equivalent ratings from another NRSRO or (with respect to the Municipal Obligations described in (1) above), if unrated, will have been determined by the investment advisor to be of comparable quality to Municipal Obligations that have received such ratings. The Fund normally invests substantially all of its assets in intermediate to longer-term Municipal Obligations. However, in order to invest cash reserves or when, in the opinion of the investment advisor, no suitable intermediate to longer-term Municipal Obligations are available, the Fund may invest up to 20% of its net assets in high quality short-term Municipal Obligations that are rated, at the time of investment, no lower than MIG-2 by Moody's, SP-2 by S&P or the equivalent by another NRSRO or, if unrated, that are determined by the investment advisor to be of comparable quality to

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Municipal Obligations that are rated at least MIG-2 or SP-2. These short-term Municipal Obligations may include variable or floating rate demand notes and similar instruments that trade as short-term obligations. For temporary defensive purposes, the Fund may invest without limit in such short-term Municipal Obligations. In addition, if in the opinion of the investment advisor no suitable short-term Municipal Obligations are available, the Fund temporarily may hold cash and, with respect to up to 20% of its net assets, invest in taxable money market instruments.

Municipal Obligations are debt obligations or similar securities issued by or on behalf of states, the District of Columbia, territories or possessions of the United States or their respective political subdivisions, agencies or instrumentalities, or by multistate agencies or authorities, the interest on which is, in the opinion of bond counsel, exempt from federal income tax.

Municipal Obligations are issued for various public purposes, including construction of public facilities, such as airports, bridges, hospitals, housing, mass transportation, schools, streets and water and sewer works. Other public purposes for which Municipal Obligations may be issued include refinancing outstanding obligations and obtaining funds for general operating expenses and for loans to other public institutions and facilities. The principal types of Municipal Obligations in which the Fund may invest are further described in the Appendix to this Prospectus and in the SAI.

Municipal Obligations include (i) "public purpose" obligations, which generate interest that is exempt from regular federal income tax and is not an item of tax preference for purposes of the federal alternative minimum tax ("Tax Preference Item"), and (ii) qualified "private activity" obligations, which generate interest that is exempt from federal income tax but that, if the obligations were issued after August 7, 1986, is a Tax Preference Item. More information on the types of Municipal Obligations in which the Fund may invest is contained in the Appendix to this Prospectus and the SAI.

The Fund may invest more than 25% of its total assets in a particular segment of the Municipal Obligations market, such as hospital, housing or airport revenue bonds, or in securities, the interest on which is paid from revenues on similar types of projects, if UBS Global AM determines that the yields available from obligations in that market segment justify the potential increase in risk resulting from a large investment in that market segment. Although such obligations might be supported by the credit of governmental entities or by non-governmental entities from a number of different industries, an economic, business, political or other change affecting one such obligation might also affect other obligations in the same market segment.

The Fund may use options (both exchange-traded and OTC) to attempt to enhance income (which would be taxable income) and also may attempt to "hedge" or manage the overall risk of its investments by using options, futures contracts and interest rate protection transactions. The Fund is not required to use derivatives or other portfolio strategies to seek to enhance return or to seek to hedge its portfolio, and UBS Global AM may elect not to do so. The Fund may use derivatives as a substitute for taking a position in an underlying security or other asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate risk. The Fund also may use derivatives to add leverage to the portfolio and/or to hedge against increases in the Fund's costs associated with the dividend payments on the preferred stock, including the APS. The Fund's use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks such as liquidity risk, interest rate risk, credit risk, leverage risk, the risk of ambiguous documentation and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If UBS Global AM incorrectly forecasts market values, interest rates or other applicable factors, the Fund's performance could suffer. If the Fund invests in a derivative instrument it could lose more than the principal amount invested. There can be no assurance that the Fund's portfolio strategies will be effective. Some of the derivative strategies that the Fund may use to seek to enhance its return are riskier than its hedging transactions and have speculative characteristics. Such strategies do not attempt to limit the Fund's risk of loss. The use of derivatives also may increase the amount of taxes payable by Stockholders; however, the fund will attempt to mitigate any taxable dividends resulting from the Fund's use of derivatives. Also, suitable derivative transactions may not be available in all circumstances, and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial.

The Fund may invest all or a portion of its assets in Municipal Obligations, the interest on which is subject to the AMT for individual taxpayers. Accordingly, Stockholders who are individuals may be required to include a portion of the Fund's dividends in calculating their AMT liability. Corporate Stockholders must include the entire amount of any exempt-interest dividends in calculating their adjusted current earnings for purposes of the AMT. The Fund may not be an appropriate investment for investors who are subject to AMT liability or who would become subject to AMT liability by reason of an investment in the Fund. All or a portion of the Fund's dividends also may be subject to state and local taxation. See "Taxation."

Generally, Municipal Obligations which are covered by insurance or a guarantee would not be rated Aaa or AAA, and might not be considered to be of investment grade credit quality, in the absence of insurance or a guarantee. Although insurance or guarantees on, or escrows of US government securities with respect to, Municipal Obligations reduce financial or credit risk with respect to those Municipal Obligations (I.E., the possibility that owners of the insured Municipal Obligations will not receive timely scheduled payments of principal or interest), insured, guaranteed and escrow-backed Municipal Obligations remain subject to market risk (I.E., fluctuations in market value as a result of changes in prevailing interest rates). Accordingly, insurance or guarantees on, or escrow backing with respect to, Municipal Obligations does not ensure the market value of the Fund's assets or the net asset value or the market price of its Common Stock or APS.

The Fund's investment objective and certain investment limitations described in the SAI are fundamental policies that may not be changed without Stockholder approval. In addition, the Fund's policy of normally investing at least 80% of its net assets in insured Municipal Obligations, the income from which is exempt from regular federal income tax, may not be deviated from without Stockholder approval. The Fund will interpret its 80% policy (and a related 20% policy with respect to investments in taxable investments as described below) as if the following phrase appeared immediately after the words "net assets": "(plus the amount of any borrowing for investment purposes)." If subsequent to an investment, the Fund's 80% policy is no longer met (E.G., bonds are called resulting in a large influx of cash), then under normal circumstances, the Fund's future investments would be made in a manner that would bring the Fund's investments back in line with the 80% threshold. All other investment policies may be changed by the Fund's Board without Stockholder approval.

Each insured Municipal Obligation in which the Fund invests will be covered by original issue insurance, secondary market insurance, or portfolio insurance. Original issue insurance is purchased with respect to a particular issue of Municipal Obligations by the issuer thereof or a third party in conjunction with the original issuance of a municipal obligation. Under original issue insurance, the insurer unconditionally guarantees to the holder of the Municipal Obligation the timely payment of principal and interest on such obligations when and as these payments become due but not paid by the issuer, except that in the event of the acceleration of the due date of the principal by reason of mandatory or optional redemption (other than acceleration by reason of a mandatory sinking fund payment), default or otherwise, the payments guaranteed may be made in the amounts and at the times as payment of principal would have been due had there not been any acceleration. Secondary market insurance is purchased by the Fund or a third party subsequent to the time of original issuance of a Municipal Obligation. Secondary market insurance generally provides the same type of coverage as

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original issue insurance. Both original issue insurance and secondary market insurance remain in effect as long as the Municipal Obligations covered thereby remain outstanding and the insurer remains in business, regardless of whether the fund ultimately disposes of such Municipal Obligations. Portfolio insurance may be purchased by the Fund with respect to Municipal Obligations which the Fund intends to purchase or already owns and would generally terminate when the municipal obligation is sold by the Fund or redeemed. Portfolio Insurance guarantees the payment of principal and interest on specified eligible municipal bonds purchased and presently held by the Fund. The Fund currently intends to emphasize investments in Municipal Obligations with original issue insurance or secondary market insurance. There is no limitation on the percentage of the Fund's assets that may be invested in Municipal Obligations insured by any given insurer.

Original issue insurance, secondary market insurance and portfolio insurance generally do not insure payment on an accelerated basis, the payment of any redemption premium (except with respect to certain premium payments in the case of certain small issue industrial development and pollution control Municipal Obligations), the value of the Common Stock or the market value of Municipal Obligations, or payments of any tender purchase price upon the tender of the Municipal Obligations. Such insurance also does not insure against nonpayment of principal of or interest on Municipal Obligations resulting from the insolvency, negligence or any other act or omission of the trustee or other paying agent for such obligations.

Moody's, S&P and the other NRSROs are private services that provide ratings of the credit quality of debt obligations, including Municipal Obligations. It should be emphasized that ratings are general and are not absolute standards of quality. Consequently, Municipal Obligations with the same maturity, interest rate and rating may have different market prices. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's financial condition may be better or worse than is indicated by its rating.

The Fund's policy of investing in Municipal Obligations insured by insurers whose claims-paying ability is rated Aaa by Moody's, AAA by S&P or the equivalent by another NRSRO applies only at the time of the Fund's investment in a particular Municipal Obligation. A subsequent downgrade of an insurer's claims-paying ability rating by Moody's, S&P or another NRSRO would result in a downgrade of the rating assigned to the Municipal Obligations insured by such insurer, although the Municipal Obligations may have an independent rating that is higher than the new rating assigned to the insurer's claims-paying ability. The securities could experience a decrease in market price as a result of such a downgrade. In the event the ratings assigned to such Municipal Obligations decline to below investment grade, such Municipal Obligations would probably become less liquid or even illiquid. UBS Global AM will consider a downgrade by Moody's, S&P or another NRSRO with respect to the claims-paying ability of an insurer or the credit characteristics of a particular issuer in determining whether the Fund should continue to hold the relevant municipal obligation. In making such a determination, UBS Global AM will also consider such factors as the rating assigned to the municipal obligation independent of the insurance, its assessment of the credit quality of the issuer of the municipal obligation and the price at which the municipal obligation could be sold. UBS Global AM will engage in an orderly disposition of downgraded Municipal Obligations to the extent necessary to ensure that the Fund's holdings of Municipal Obligations rated below Baa by Moody's, BBB by S&P or an equivalent rating by another NRSRO do not exceed 5% of the Fund's net assets. Municipal Obligations rated Baa by Moody's are investment grade but Moody's considers them to have speculative characteristics. Changes in economic conditions or other circumstances are more likely to affect the ability of Municipal Obligations that are rated Baa or BBB (or equivalent) to make principal and interest payments than that of higher grade Municipal Obligations.

Although UBS Global AM periodically reviews the financial condition of each insurer of a Municipal Obligation in the Fund's portfolio, there can be no assurance that the insurers will be able to honor

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their obligations in all circumstances. In the event of a default by an issuer on its obligations with respect to any Municipal Obligations in the Fund's portfolio, the Fund could look to the insurer or guarantor of the relevant Municipal Obligations for payments of principal and interest. Such insurer or guarantor may not be rated Aaa, AAA or the equivalent. Accordingly, the Fund could be exposed to greater risk of non-payment in such circumstances which could in turn adversely affect the Fund's net asset value, the market price per share of the Common Stock and the price of the APS. Alternatively, the Fund could elect to dispose of these Municipal Obligations; however, the market prices for such Municipal Obligations may be lower than the Fund's purchase price for them, and the Fund could sustain a capital loss as a result.

OTHER INVESTMENT PRACTICES

Certain of the other investment practices in which the Fund may engage and that are described below may give rise to federal income tax liabilities. Under normal circumstances, the Fund does not intend to engage in those practices to a significant extent. The Fund's ability to engage in certain of these investment practices is limited by the rating agency guidelines applicable to the APS, which are described further below.

WHEN-ISSUED AND DELAYED DELIVERY SECURITIES. The Fund may purchase Municipal Obligations on a when-issued basis, or may purchase or sell Municipal Obligations for delayed delivery. In when-issued or delayed delivery transactions, delivery of the securities occurs beyond normal settlement periods, but no payment or delivery will be made by the Fund prior to the actual delivery or payment by the other party to the transaction. The Fund does not accrue income with respect to a when-issued or delayed delivery security prior to its stated delivery date. When the Fund purchases securities on a when-issued or delayed-delivery basis, however, it immediately assumes the risks of ownership, including the risk of price fluctuation. Depending on market conditions, the Fund's when-issued and delayed delivery purchase commitments could cause its net asset value per share (and thus its market value per share) to be more volatile, because such securities may increase the amount by which the Fund's total assets, including the value of when-issued and delayed delivery securities held by the Fund, exceed its net assets. Failure to deliver a security purchased on a when-issued or delayed delivery basis may result in a loss or missed opportunity to make an alternative investment.

SHORT-TERM TAX-EXEMPT AND TAXABLE INVESTMENTS. The Fund normally invests substantially all of its assets in intermediate to longer-term Municipal Obligations. However, in order to invest cash reserves, or when, in the opinion of UBS Global AM, no suitable longer-term Municipal Obligations are available, the Fund may invest up to 20% of its net assets in high quality short-term Municipal Obligations that are rated, at the time of investment, no lower than

MIG-2 by Moody's, SP-2 by S&P or the equivalent by another NRSRO; or, if unrated, that are determined by UBS Global AM to be of comparable quality to Municipal Obligations that are rated at least MIG-2 or SP-2. These Municipal Obligations may include variable or floating rate demand notes and similar instruments that trade as short-term obligations. The Fund may invest without limit in such high quality short-term Municipal Obligations for temporary defensive purposes.

In addition, if in the opinion of UBS Global AM no suitable short-term Municipal Obligations are available, the Fund temporarily may hold cash and, with respect to up to 20% of its net assets, invest in taxable money market instruments, including: (1) US government securities; (2) high quality commercial paper that is rated, at the time of purchase, no lower than Prime-2 by Moody's or A-2 by S&P or, if unrated, that is determined by UBS Global AM to be of comparable quality to commercial paper that is rated at least Prime-2 or A-2; (3) bank obligations (including certificates of deposit, time deposits and bankers' acceptances of domestic banks); and (4) repurchase agreements with respect to any of the foregoing. Interest earned from such taxable investments will be taxable to Stockholders as

ordinary income when distributed. If the Fund were to hold cash, the cash would not earn interest, and the Fund's yield would be lower than if the cash had been invested.

REPURCHASE AGREEMENTS. The Fund is authorized to enter into repurchase agreements with respect to any obligation issued or guaranteed by the US government, its agencies or instrumentalities and also with respect to commercial paper, bank certificates of deposit and bankers' acceptances. Repurchase agreements are transactions in which the Fund would purchase securities from a bank or recognized securities dealer (or its affiliate) and simultaneously commit to resell those securities to the counterparty at an agreed-upon date or upon demand and at a price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased securities. The Fund would maintain custody of the underlying securities prior to their repurchase, either through its regular custodian or through a special "tri-party" custodian or sub-custodian that maintains separate accounts for both the Fund and its counterparty; thus, the obligation of the counterparty to pay the repurchase price on the date agreed to or upon demand would, in effect, be secured by such securities. If the value of such securities were less than the repurchase price, plus any agreed-upon additional amount, the other party to the agreement would be required to provide additional collateral so that at all times the collateral is at least equal to the repurchase price, plus any agreed-upon additional amount. The difference between the total amount to be received upon repurchase of the securities and the price which was paid by the Fund upon acquisition would be accrued as interest and included in the Fund's net investment income.

Repurchase agreements carry certain risks not associated with direct investments in securities, including possible declines in the market value of the underlying securities and delays and costs to the Fund if the other party to the repurchase agreement becomes insolvent. The Fund intends to enter into repurchase agreements only with banks and dealers in transactions believed by UBS Global AM to present minimal credit risks. UBS Global AM will review and monitor the creditworthiness of such institutions.

REVERSE REPURCHASE AGREEMENTS. The Fund may enter into reverse repurchase agreements with the same parties with whom it may enter into repurchase agreements. Under a reverse repurchase agreement, the Fund would sell securities and agree to repurchase (and the buyer would be required to resell) them at a mutually agreed date or upon demand and at a price reflecting a market rate of interest. At the time the Fund enters into a reverse repurchase agreement, it will establish and maintain a segregated account with an approved custodian containing cash or liquid securities, marked to market daily, having a value not less than the repurchase price (including accrued interest). The market value of securities sold under reverse repurchase agreements typically is greater than the proceeds of the sale, and accordingly, the market value of the securities sold is likely to be greater than the value of the securities in which the Fund invests those proceeds. Thus, reverse repurchase agreements involve the risk that the Fund might be unable to reacquire the securities that it has sold. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision. Reverse repurchase agreements will be treated as borrowings for purposes of calculating the Fund's borrowing limitation discussed below. See "Description of APS--Rating Agency Guidelines and Asset Maintenance."

LENDING OF PORTFOLIO SECURITIES. To attempt to enhance income (which would be taxable income) the Fund is authorized to lend up to 33 1/3% of the total value of its portfolio securities to broker-dealers or institutional investors that UBS Global AM deems qualified, but only if doing so would not adversely affect the rating of the APS by S&P and only when the borrower maintains acceptable collateral with the Fund's custodian in an amount, marked to market daily, at least equal to the market

value of the securities loaned, plus accrued interest and dividends. Acceptable collateral is limited to cash, US government securities and irrevocable letters of credit that meet certain guidelines established by UBS Global AM. In determining whether to lend securities to a particular broker-dealer or institutional investor, UBS Global AM will consider, and during the period of the loan will monitor, all relevant facts and circumstances, including the creditworthiness of the borrower. The Fund will retain authority to terminate any loans at any time. The Fund may pay reasonable administrative and custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash held as collateral to the borrower or placing broker. The Fund will receive reasonable interest on the loan or a flat fee from the borrower, and amounts equivalent to any dividends, interest or other distributions on the securities loaned. The Fund will regain ownership of loaned securities to exercise beneficial rights, such as voting and subscription rights, when regaining such rights is considered to be in the Fund's interest.

OTHER PRACTICES. The Fund may invest up to 20% of its net assets in illiquid securities. Illiquid securities are those that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities. Illiquid securities include, among others, securities subject to contractual restrictions on resale, repurchase agreements maturing in more than seven days and municipal lease obligations (including certificates of participation) other than those that UBS Global AM has determined are liquid pursuant to guidelines established by the Board. To the extent that the Fund invests in illiquid securities, the Fund may not be able to readily liquidate such investments, and would have to sell other investments if necessary to raise cash to meet its obligations. The lack of a liquid secondary market for illiquid securities may make it more difficult for the Fund to assign a value to those securities for purposes of valuing the Fund's portfolio and calculating its net asset value. The Fund also may invest in stand-by commitments with respect to Municipal Obligations it purchases or holds. The Fund may engage in short sales "against the box."

INVESTMENT RISKS

RISK IS INHERENT IN ALL INVESTING. INVESTING IN ANY INVESTMENT COMPANY SECURITY INVOLVES RISK, INCLUDING THE RISK THAT YOU MAY RECEIVE LITTLE OR NO RETURN ON YOUR INVESTMENT OR EVEN THAT YOU MAY LOSE PART OR ALL OF YOUR INVESTMENT. THEREFORE, BEFORE PURCHASING THE FUND'S APS, YOU SHOULD CONSIDER CAREFULLY THE FOLLOWING RISKS THAT YOU ASSUME WHEN YOU INVEST IN THE FUND. AN INVESTMENT IN THE FUND'S APS SHOULD NOT CONSTITUTE A COMPLETE INVESTMENT PROGRAM.

RISKS OF INVESTING IN APS

AUCTION RISK. An attempt to sell APS at an Auction may fail if the Auction fails; that is, if there are more APS offered for sale than there are buyers for those shares. If sufficient clearing bids do not exist in an Auction, the applicable rate will be the maximum applicable rate, and in such event, owners of APS wishing to sell will not be able to sell all, and may not be able to sell any, of such shares in the Auction. As a result, an investment in APS may be illiquid. Neither the broker-dealers nor the Fund is obligated to purchase APS in an Auction or otherwise, nor is the Fund required to redeem APS in the event of a failed Auction. Also, if an investor places bid orders (orders to retain APS) at an Auction only at a specified rate, and that bid rate exceeds the applicable rate set at the Auction, the investor will not retain its APS. Finally, if an investor elects to retain APS without specifying a rate below which it would not wish to continue to hold its APS, and the Auction sets a below-market rate, it may receive a lower rate of return on its APS than the market rate. See "The Auction."

RATINGS AND ASSET COVERAGE RISK. While Moody's is expected to assign a rating of "Aaa" to the APS and S&P is expected to assign a rating of "AAA" to the APS, the ratings will not eliminate or necessarily mitigate the risks of investing in the APS. A rating agency could withdraw, suspend or downgrade the rating assigned to the APS, which may make shares of APS less liquid at an Auction or in the secondary market. In addition, the Fund may be forced to redeem APS to meet regulatory or rating agency requirements. The Fund may also voluntarily redeem APS under certain circumstances.

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See "Description of APS--Redemption." The Fund may not redeem APS if such a redemption would cause the Fund to fail to meet regulatory or rating agency asset coverage requirements, and the Fund may not declare, pay or set apart for payment any dividend or other distribution if immediately thereafter the Fund would fail to meet regulatory asset coverage requirements. A material decline in the Fund's net asset value may impair the Fund's ability to maintain its required levels of asset coverage on the APS, or, in an extreme case, to pay dividends on APS. In addition, as a condition to its receipt of "Aaa" and "AAA" ratings on the APS, the Fund has agreed to certain investment limitations, which may restrict the Fund from making investments that UBS Global AM believes would benefit the Fund. See "Description of APS--Rating Agency Guidelines and Asset Maintenance" for descriptions of the significance and limitations of the ratings on the APS and of the asset maintenance and other tests the Fund must meet.

SECONDARY MARKET RISK. The broker-dealers may maintain a secondary trading market in the APS outside of Auctions; however, they have no obligation to do so, and there can be no assurance that a secondary market for the APS will develop or, if it does develop, that it will provide holders with a liquid trading market (I.E., trading will depend on the presence of willing buyers and sellers, and the trading price is subject to variables to be determined at the time of the trade by the broker-dealers). The APS will not be registered on any stock exchange or on any automated quotation system. Investors may not be able to sell any or all of their APS between Auctions, or may receive a purchase price of less than $50,000 per share, plus unpaid dividends. An increase in the level of interest rates likely will have an adverse effect on the secondary market price of the APS.

INTEREST RATE RISK AND APS. The Fund issues shares of APS, which generally pay dividends based on short-term interest rates. The Fund generally will purchase Municipal Obligations that pay interest at fixed or adjustable rates. If short-term interest rates rise, dividend rates on the shares of APS may rise so that the amount of dividends paid to the holders of shares of APS exceeds the income from the Fund's portfolio securities. Because income from the Fund's entire investment portfolio (not just the portion of the portfolio purchased with the proceeds of the APS offering) is available to pay dividends on the shares of APS, dividend rates on the shares of APS would need to greatly exceed the Fund's net portfolio income before the Fund's ability to pay dividends on the shares of APS would be jeopardized. If market interest rates rise, this could negatively impact the value of the Fund's investment portfolio, reducing the amount of assets serving as asset coverage for the APS.

LEVERAGE RISK. The Fund uses financial leverage for investment purposes by issuing APS. It is currently anticipated that, taking into account the APS being offered in this Prospectus and the outstanding Series A APS, Series B APS, Series C APS, and Series D APS, the amount of leverage will represent approximately 40% of the Fund's total assets. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. These include the possibility of volatility of the APS's asset coverage.

RESTRICTIONS ON DIVIDENDS AND OTHER DISTRIBUTIONS. Restrictions imposed on the declaration and payment of dividends or other distributions to holders of the Fund's Common Stock and APS, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem APS if necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Internal Revenue Code ("Code"), there can be no assurance that such actions can be effected in time to meet the Code requirements. See "Taxation."

GENERAL RISKS OF INVESTING IN THE FUND

MARKET RISK AND SELECTION RISK. Market risk is the risk that the bond market will go down in value, including the possibility that the market will go down sharply and unpredictably. Selection risk is

the risk that the securities that UBS Global AM selects will underperform the bond market, the relevant market indices, or other funds with similar investment objectives and investment strategies.

MUNICIPAL OBLIGATION MARKET RISK. The amount of public information available about the Municipal Obligations in the Fund's portfolio is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of UBS Global AM than that of an equity fund or a taxable bond fund. The secondary market for Municipal Obligations also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its bonds at attractive prices or at prices approximating those at which the Fund currently values them. The Fund may invest up to 20% of its assets in illiquid securities. See "Investment Objective and Policies--Other Investment Practices." The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of Municipal Obligations might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.

INTEREST RATE AND CREDIT RISK. The Fund invests in Municipal Obligations, which are subject to interest rate and credit risk. Interest rate risk is the risk that prices of Municipal Obligations generally increase when interest rates decline and decrease when interest rates increase. Prices of longer term securities generally change more in response to interest rate changes than prices of shorter term securities. The Common Stock's net asset value, the market price per share of the Common Stock, and the value of the bonds in which the Fund will invest will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term bonds. The Fund's use of leverage by the issuance of APS and its investments in certain other obligations, as described above, may increase interest rate risk. Market interest rates for investment grade Municipal Obligations in which the Fund will primarily invest have recently declined significantly below the recent historical average rates for such bonds and market interest rates are now near historical lows. These levels increase the risk that these rates will rise in the future (which would cause the value of the Fund's net assets to decline). Credit risk is the risk that the issuer will be unable to pay the interest or principal when due. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. The Fund primarily intends to invest in Municipal Obligations that are rated investment grade by S&P or Moody's. It may also invest up to 20% of its net assets in unrated Municipal Obligations that UBS Global AM believes are of comparable quality. Obligations rated in the lowest investment grade category may have certain speculative characteristics.

CALL AND REDEMPTION RISK. A Municipal Obligation's issuer may call the bond for redemption before it matures. If this happens to a Municipal Obligation the Fund holds, the Fund may lose income and may have to invest the proceeds in Municipal Obligations with lower yields.

PRIVATE ACTIVITY BONDS. The Fund may invest in certain tax exempt securities classified as "private activity bonds." These bonds may subject certain investors in the Fund to the AMT. The Fund is not restricted with respect to investing in private activity bonds that are not subject to the AMT. See "Taxation."

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INFLATION RISK. Inflation risk is the risk that the value of assets or income from an investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the APS can decline.

PORTFOLIO STRATEGIES. The Fund may engage in various portfolio strategies both to seek to hedge its portfolio against adverse effects from movements in interest rates and in the securities markets generally and to seek to increase the return of the Fund. These strategies include the use of derivatives, such as exchange-traded financial futures and option contracts, options on futures contracts or over-the-counter dealer transactions in caps, swap agreements or swaptions. Such strategies subject the Fund to the risk that, if UBS Global AM incorrectly forecasts market values, interest rates or other applicable factors, the Fund's performance could suffer. The Fund is not required to use derivatives or other portfolio strategies and may not do so. Income earned by the Fund from many hedging activities will be treated as capital gain and, if not offset by net realized capital loss, will be distributed to Stockholders in taxable distributions. There can be no assurance that the Fund's portfolio strategies will be effective.

DERIVATIVES RISK. The Fund may use options (both exchange-traded and OTC) to attempt to enhance income (which would be taxable income) and also may attempt to "hedge" or manage the overall risk of its investments by using options, futures contracts and interest rate protection transactions. The Fund is not required to use derivatives or other portfolio strategies to seek to enhance return or to seek to hedge its portfolio, and UBS Global AM may elect not to do so. The Fund may use derivatives as a substitute for taking a position in an underlying security or other asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate risk. The Fund also may use derivatives to add leverage to the portfolio and/or to hedge against increases in the Fund's costs associated with the dividend payments on the preferred stock, including the APS. The Fund's use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks such as liquidity risk, interest rate risk, credit risk, leverage risk, the risk of ambiguous documentation and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If UBS Global AM incorrectly forecasts market values, interest rates or other applicable factors, the Fund's performance could suffer. If the Fund invests in a derivative instrument it could lose more than the principal amount invested. There can be no assurance that the Fund's portfolio strategies will be effective. Some of the derivative strategies that the Fund may use to seek to enhance its return are riskier than its hedging transactions and have speculative characteristics. Such strategies do not attempt to limit the Fund's risk of loss. The use of derivatives also may increase the amount of taxes payable by Stockholders. Also, suitable derivative transactions may not be available in all circumstances, and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial.

ANTI-TAKEOVER PROVISIONS. The Fund's Articles of Incorporation include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Directors. Such provisions could limit the ability of Stockholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See "Description of Common Stock--Certain Anti-Takeover Provisions of the Articles of Incorporation."

MARKET DISRUPTION. The war with Iraq, its aftermath and the continuing occupation of Iraq are likely to have a substantial impact on the US and world economies and securities markets. The nature, scope and duration of the war and occupation cannot be predicted with any certainty. Terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 closed some of the US securities markets for a four-day period, and similar events cannot be ruled out. The war and occupation, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on US and world economies and markets

generally. Those events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect individual issuers and securities markets, interest rates, Auctions, secondary trading, ratings, credit risk and other factors relating to the APS.

PORTFOLIO MANAGEMENT AND OTHER CONSIDERATIONS. If short term or medium term rates increase or other changes in market conditions occur to the point where the Fund's leverage could adversely affect holders of Common Stock (or in anticipation of such changes), the Fund may attempt to shorten the average maturity or duration of its investment portfolio in order to offset the negative impact of leverage. The Fund also may attempt to reduce the degree to which it is leveraged by redeeming preferred shares or otherwise by purchasing preferred shares, including the APS. Purchases and redemptions of preferred shares, including the APS, whether on the open market or in negotiated transactions, are subject to limitations under the 1940 Act. In determining whether or not it is in the best interest of the Fund and its Stockholders to redeem or repurchase outstanding preferred shares, the Fund may take into account a variety of factors, including the following:

- market conditions,

- the ratio of preferred shares to Common Stock, and

- the expenses associated with such redemption or repurchase.

If market conditions subsequently change, the Fund may sell previously unissued preferred shares or preferred shares that the Fund had issued but later repurchased or redeemed.

DESCRIPTION OF APS

GENERAL

The Articles of Incorporation authorize the issuance of 200,000,000 shares of capital stock, currently designated 199,997,000 shares of Common Stock, 800 shares of each of APS Series A, B, and C, and 600 shares of APS Series D. The Board is authorized to classify and reclassify any unissued shares of capital stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms and conditions of redemption of such shares of stock and, therefore, to reclassify some or all of the Fund's unissued capital stock as Preferred Stock. In connection with the issuance of APS Series E and APS Series F contemplated in this prospectus, the Board has reclassified 600 shares of its capital stock as APS Series E and 600 shares of its capital stock as APS Series F.

DEFINED TERMS

As used herein with respect to any APS series, (i) "Applicable Rate" means the rate PER ANNUM at which dividends are payable on APS series shares for any Dividend Period thereof, (ii) "Business Day" means a day on which the NYSE is open for trading and which is not a Saturday, Sunday or other day on which banks in New York City are authorized by law to close, (iii) "Date of Original Issue" means the date on which the Fund initially issued shares of such series of APS, (iv) "Dividend Payment Date" means any date on which dividends on shares of such series of APS are payable as provided under "Description of APS--Dividends and Dividend Periods," (v) "Dividend Period" means the period from and including the Date of Original Issue of such series to but excluding the initial Dividend Payment Date for such series and any period thereafter from and including one Dividend Payment Date for such series to but excluding the next succeeding Dividend Payment Date for such series, (vi) "Initial Dividend Period" means the period from and including the Date of Original Issue of such series to but excluding the first Dividend Payment Date which occurs in a month which contains the first scheduled Auction Date with respect to shares of such series of APS, (vii) "Rate Period" means the Initial Dividend Period of such series and any Subsequent Dividend Period of such series, (viii) "Subsequent Dividend Period" means any period from and including the first day following the Initial Dividend

Period for such series to but excluding the next Dividend Payment Date for such series which follows a scheduled Auction for such series to but excluding the next succeeding Dividend Payment Date which follows a scheduled Auction for such series, provided, however, that if any Subsequent Dividend Period is also a Special Dividend Period, such term shall mean the period commencing on the first day of such Special Dividend Period and ending on the last day of the last Dividend Period thereof, (ix) "Minimum Dividend Period" means any Rate Period consisting of 28 or fewer days with respect to such series of APS, subject to certain exceptions, (x) "Valuation Date" means each Business Day and (xi) "Special Dividend Period" means any Subsequent Dividend Period commencing on the date designated by the Fund, as set forth under "Description of APS--Dividends and Dividend Periods," and ending on the last day of the last Dividend Period thereof.

Terms used herein and not otherwise defined have the meanings ascribed to them in the Glossary contained in the SAI.

DIVIDENDS AND DIVIDEND PERIODS

Dividends on shares of APS Series will accumulate at the Applicable Rate PER ANNUM from the Date of Original Issue and will be payable, when, as and if declared by the Board out of legally available funds on the dividend dates set forth below:

SERIES	INITIAL DIVIDEND DATE	SUBSEQUENT DIVIDEND DAY ON EACH
APS Series E...........................	January 12, 2004	Monday
APS Series F...........................	January 6, 2004	Tuesday

Subsequent Dividend Periods shall be seven days for each of APS Series E and APS Series F, provided that the Fund, subject to certain conditions, may designate any Subsequent Dividend Period as a Special Dividend Period, which shall be such number of consecutive days or whole years as the Board shall specify, subject to certain exceptions.

If the day on which dividends otherwise would be paid is not a Business Day, then your dividends will be paid on the next following Business Day.

Dividends on APS Series E and APS Series F will be paid through the Securities Depository (Depository Trust Company or any successor) on each Dividend Payment Date. The Securities Depository, in accordance with its normal procedures, is expected to distribute dividends received on APS Series E and APS Series F in next-day funds to Agent Members, who are in turn expected to distribute such dividend payments to the persons for whom they are acting as agents. Each of the initial Broker-Dealers, however, has indicated to the Fund that such broker-dealer or one of its affiliates will make such dividend payments available in same-day funds on each Dividend Payment Date to customers that use such Broker-Dealer or such affiliate as Agent Member.

The dividend rate for the respective Initial Dividend Periods for each of

APS Series E and APS Series F will be (i) 1.10% PER ANNUM for the APS Series E and (ii) 1.10% PER ANNUM for APS Series F. For each Subsequent Dividend Period, the dividend rate for shares of each series of APS will be the Applicable Rate PER ANNUM that the Auction Agent (Deutsche Bank Trust Company Americas or any successor) advises the Fund results from an Auction, except as provided below. The dividend rate that results from an Auction for a series of APS will not be greater than the Maximum Rate.

The Maximum Rate will generally be the Applicable Percentage (set forth in the Applicable Percentage Table, below) of the Reference Rate set forth below. However, where APS Series E or F has or had a Special Dividend Period (other than a Special Dividend Period of 28 days or less) and an Auction at which sufficient clearing bids existed has not yet occurred for a Minimum Dividend Period

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for such series (28 or fewer days) after such Special Dividend Period, the Maximum Rate shall be the Reference Rate multiplied by the greater of

(A) the dividend rate on shares of such APS series for the then-ending Rate Period, or

(B) the product of (x) the Applicable Percentage on such Auction Date, and (y) the higher of (1) the "AA" Composite Commercial Paper Rate on such Auction Date for the then-ending Rate Period of such series, if such Rate Period is less than one year, or the Treasury Rate on such Auction Date for such Rate Period, if such Rate Period is one year or greater, or (2) the "AA" Composite Commercial Paper Rate on such Auction Date for such Special Dividend Period of such series, if the Special Dividend Period is less than one year, or the Treasury Rate on such Auction Date for the Special Dividend Period, if the Special Dividend Period is one year or greater.

Where an Auction Date immediately precedes the first day of any proposed Special Dividend Period of more than 28 days, the Maximum Rate shall be the Applicable Percentage (set forth in the Applicable Percentage Table, below) multiplied by the highest of (1) the Reference Rate on such Auction Date for the then-ending Rate Period of such series, if such Rate Period is less than one year, or the Treasury Rate on such Auction Date for such Rate Period, if such Rate Period is one year or greater; (2) the Reference Rate on such Auction Date for the Special Dividend Period of such series for which the Auction is being held, if such Special Dividend Period is less than one year, or the Treasury Rate on such Auction Date for the Special Dividend Period for which the Auction is being held, if such Special Dividend Period is one year or greater; or (3) the Reference Rate on such Auction Date for a Minimum Dividend Period.

REFERENCE RATES; TREASURY RATES. The applicable Reference Rates and Treasury Rates will be the rates announced on such Auction Date for the Business Day immediately prior to such Auction Date.

The Reference Rate is, with respect to any Rate Period of less than one year, the higher of (i) the "AA" Composite Commercial Paper Rate and (ii) the Taxable Equivalent of the Short-Term Municipal Bond Rate. The applicable "AA" Composite Commercial Paper Rates and Treasury Rates will be the rates announced on such Auction Date for the Business Day immediately prior to such Auction Date.

"AA Composite Commercial Paper Rate," on any date for any Rate Period, means: (i) (A) in the case of any Minimum Dividend Period or any Rate Period of between 7 and 35 days, the interest equivalent of the 30-day rate; provided, however, in the case of any Minimum Dividend Period of 7 days or any Rate Period with 7 days, and if the "AA" Composite Commercial Paper Rate is being used to determine the Applicable Rate when all of the outstanding APS are subject to submitted hold orders, then the interest equivalent of the 7-day rate, and (B) in the case of any Rate Period with more than 35 days, the interest equivalent of the 180-day rate, on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA"' by S&P or the equivalent of such rating by S&P or another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date; or (ii) in the event that the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers to the Auction Agent for the close of business on the Business Day next preceding such date.

"Taxable Equivalent of the Short-Term Municipal Bond Rate" on any date means 90% of the quotient of (a) the PER ANNUM rate expressed on an Interest Equivalent basis equal to the Kenny S&P 30-day High Grade Index or any successor index (the "Kenny Index"), made available for the Business Day immediately preceding such date but in any event not later than 8:30 a.m., Eastern time, on such date by Kenny Information Systems or any successor thereto, (provided that the use of such successor will not result in a reduction or withdrawal of the rating of the APS by Moody's, if Moody's is then rating the APS, or by S&P, if S&P is then rating the APS) based on 30-day yield evaluations at par of

bonds, the interest on which is excludable for regular federal income tax purposes, of "high grade" component issuers selected by Kenny Information Systems or any such successor from time to time in its discretion, which component issuers shall include, without limitation, issuers of general obligation bonds but shall exclude any bonds the interest on which constitutes an item of tax preference under section 57(a)(5) of the Internal Revenue Code or successor provisions, for purposes of the AMT, divided by (b) 1.00 minus the Marginal Tax Rate (expressed as a decimal); provided, however, that if the Kenny Index is not made so available by 8:30 a.m., Eastern time, on such date by Kenny Information Systems or any successor, the Taxable Equivalent of the Short-Term Municipal Bond Rate shall mean the quotient of (i) the PER ANNUM rate expressed on an Interest Equivalent basis equal to the most recent Kenny Index so made available for any preceding Business Day, divided by (ii) 1.00 minus the Marginal Tax Rate (expressed as a decimal).

For the purposes of the foregoing, "Treasury Rate," on any date for any Rate Period, means: (i) the yield on the most recently auctioned non-callable direct obligations of the US Government (excluding "flower" bonds) with a remaining maturity within three months of the duration of such Rate Period, as quoted in THE WALL STREET JOURNAL on such date for the Business Day next preceding such date; or (ii) in the event that any such rate is not published by THE WALL STREET JOURNAL, then the arithmetic average of the yields (expressed as an interest equivalent in the case of a Rate Period which is one year or less and expressed as a bond equivalent in the case of any longer Rate Period) on the most recently auctioned non-callable direct obligations of the US Government (excluding "flower" bonds) with a remaining maturity within three months of the duration of such Rate Period as quoted on a discount basis or otherwise by the US Government Securities Dealers to the Auction Agent for the close of business on the Business Day immediately preceding such date.

The "Applicable Percentage" will be a percentage, determined as set forth below, based on the prevailing rating of the APS in effect at the close of business on the Business Day next preceding such Auction Date:

PREVAILING RATING	APPLICABLE PERCENTAGE

Aa3/AA- or higher................................	110%
A3/A-..	125%
Baa3/BBB-..	150%
Ba3/BB-..	200%
Below Ba3/BB-....................................	250%

However, if the Fund has notified the Auction Agent of its intent to allocate income that is taxable for federal income tax purposes to the APS prior to any Auction, for purposes of determining the Maximum Rate with respect to such Auction, the Applicable Percentage in the foregoing table shall be divided by the quantity (1 minus the Marginal Tax Rate), only to the extent of the portion of the dividend on the APS for such Rate Period that represents the allocation of taxable income to APS. If the APS are rated by only one rating agency, such rating will be the prevailing rating. If the ratings for the APS are split between two of the foregoing categories, the lower rating will determine the prevailing rating.

If an Auction for any series of APS is not held when scheduled for any reason that is in the Fund's control, or if the Fund fails to deposit in a timely manner with the Auction Agent the full amount of any dividend on, or redemption price of, shares of any series of APS, and such failure has not been cured as set forth below prior to any succeeding Subsequent Dividend Period, the dividend rate on the shares of such series for any such Subsequent Dividend Period will be the Maximum Rate on date on which the Auction was scheduled to be held.

In the event the Auction Agent shall fail to calculate or, for any reason (other than if the Auction is not held for any reason within the Fund's control pursuant to the preceeding paragraph) shall fail to

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provide the Applicable Rate for any Subsequent Dividend Period, (i) if the preceding Subsequent Dividend Period was a period of 35 days or less (other than a daily Subsequent Dividend Period), the new Subsequent Dividend Period shall be the same as the preceding Subsequent Dividend Period and the Applicable Rate for the new Subsequent Dividend Period shall be the same as the Applicable Rate for the preceding Subsequent Dividend Period, and (ii) if the preceding Subsequent Dividend Period was a period of greater than 35 days, the preceding Subsequent Dividend Period shall be extended through the next Monday or Tuesday with respect to the APS Series E, and the APS Series F, respectively (or if such Monday or Tuesday is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Applicable Rate in effect for the preceding Subsequent Dividend Period shall continue in effect for the Subsequent Dividend Period as so extended. In the event the Subsequent Dividend Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the Business Day of the Subsequent Dividend Period as so extended to take effect for an Subsequent Dividend Period beginning on the Business Day immediately following the last day of the Subsequent Dividend Period as extended which Subsequent Dividend Period will end on the date it would otherwise have ended on had the prior Subsequent Dividend Period not been extended.

If the Fund fails to deposit in a timely manner with the Auction Agent the full amount of any dividend on, or redemption price of, any shares of any APS series during any Rate Period for that series, and, does not cure its failure to do so or pay a late charge, if applicable, prior to 12:00 Noon Eastern time on the third Business Day next following the failure, Auctions for such series will be suspended until the failure is cured. The dividend rate for such shares of APS for each dividend period commencing after that failure (including the dividend period, if any, during which the failure is cured) shall be a rate PER ANNUM equal to the Maximum Rate on the Auction Date for each such dividend period (but with the prevailing rating for such shares, for purposes of determining such Maximum Rate, being deemed to be "Below Ba3/BB-").

ADDITIONAL DIVIDENDS. If the Fund allocates any net capital gain or other income taxable for federal income tax purposes to a dividend paid on APS without having provided advance notice thereof to the Auction Agent (a "Taxable Allocation"), whether or not such allocation is made retroactively as a result of the redemption of all or a portion of the APS or the liquidation of the Fund, the Fund shall pay an additional dividend.

Simultaneously with such allocation, if practicable, but in no event later than 270 days after the end of the Fund's taxable year for which a Taxable Allocation is made, provide notice thereof to the Auction Agent and to each APS Stockholder during such taxable year at such Stockholder's address as it last appears on the stock books of the Fund. The Fund will, within 30 days of notifying the Auction Agent, pay to the Auction Agent (who will then distribute to such holders of shares of APS), out of legally available funds, an amount equal to the aggregate Additional Dividends (as defined below) with respect to all Taxable Allocations made to such holders for the taxable year in question. See "Taxation."

The additional dividend will be in an amount approximately equal to the amount of taxes paid by an APS Stockholder on the Taxable Allocation and the additional dividend, provided that the additional dividend will be calculated (i) without consideration being given to the time value of money; (ii) assuming that no holder of APS is subject to the AMT with respect to dividends received from the Fund; and (iii) assuming that each Taxable Allocation would be taxable in the hands of APS Stockholder at the maximum marginal regular federal individual income tax rate applicable to ordinary income or net capital gain, as applicable, or the maximum marginal regular federal corporate income tax rate, whichever is greater, in effect during the taxable year in question.

RATING AGENCY GUIDELINES AND ASSET MAINTENANCE

The Fund is required under Moody's and S&P guidelines to maintain assets having in the aggregate a Discounted Value at least equal to the APS Basic Maintenance Amount. Moody's and S&P have

each established separate guidelines for determining Discounted Value. To the extent any particular portfolio holding does not satisfy the applicable rating agency's guidelines, all or a portion of such holding's value will not be included in the calculation of Discounted Value (as defined by such rating agency). The Moody's and S&P guidelines do not impose any limitations on the percentage of the Fund's assets that may be invested in holdings not eligible for inclusion in the calculation of the Discounted Value of the Fund's portfolio. The amount of such assets included in the portfolio at any time may vary depending upon the rating, diversification and other characteristics of the eligible assets included in the portfolio, although it is not anticipated that in the normal course of business the value of such assets would exceed 20% of the Fund's total assets. The APS Basic Maintenance Amount includes the sum of (a) the aggregate liquidation preference of shares of APS then outstanding and (b) certain accrued and projected payment obligations of the Fund.

The Fund is also required under the 1940 Act and rating agency guidelines to maintain, with respect to shares of APS, as of the last Business Day of each month in which any such shares are outstanding, asset coverage of at least 200%

with respect to all outstanding senior securities which represent the Fund's equity securities, including APS (or such other asset coverage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities which represent equity securities of a closed-end investment company as a condition of declaring dividends on its Common Stock) ("1940 Act APS Asset Coverage").

Based on the composition of the Fund's portfolio and market conditions as of September 30, 2003, the 1940 Act APS Asset Coverage with respect to the APS, assuming the issuance of APS Series E and APS Series F and after giving effect to the deduction of underwriting discounts and offering expenses relating to all APS series, estimated at $848,400 would be computed as follows:

Value of Fund assets less liabilities not constituting senior securities	=	$532,235,688	=	253%
Senior securities representing indebtedness plus liquidation value of the APS		$210,000,000		

In the event the Fund does not timely cure a failure to maintain (a) a Discounted Value of its portfolio equal to the APS Basic Maintenance Amount or (b) the 1940 Act APS Asset Coverage, in each case in accordance with the requirements of the rating agency or agencies then rating the Shares of APS, the Fund will be required to redeem shares of APS as described under "Redemption--Mandatory Redemption" below.

The Fund may, but is not required to, adopt any modifications to the guidelines that may hereafter be established by Moody's or S&P. Failure to adopt any such modifications, however, may result in a change in the ratings described above or a withdrawal of ratings altogether. In addition, any rating agency providing a rating for the shares of APS may, at any time, change or withdraw any such rating. The Board may, without Stockholder approval, amend, alter or repeal any or all of the definitions and related provisions which have been adopted by the Fund pursuant to the rating agency guidelines in the event the Fund receives written confirmation from Moody's or S&P, or both, as appropriate, that any such amendment, alteration or repeal would not impair the ratings then assigned by Moody's and S&P to shares of APS.

As recently described by Moody's and S&P, a preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The ratings on the shares of APS are not recommendations to purchase, hold or sell those shares, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The rating agency guidelines described above also do not address the likelihood that an owner of shares of APS will be able to sell such shares in an Auction or otherwise. The ratings are based on current information furnished to

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Moody's and S&P by the Fund and the Advisor and information obtained from other sources. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information. The Fund's Common Stock has not been rated by an NRSRO.

A rating agency's guidelines will apply to shares of APS only so long as such rating agency is rating such shares. The Fund pays certain fees to Moody's or S&P, or both, for rating shares of APS.

REDEMPTION

MANDATORY REDEMPTION. The Fund will be required to redeem, at the Mandatory Redemption Price ($50,000 per share of APS plus an amount equal to accumulated but unpaid dividends thereroman">

Product sales

$ —

$ —

$ —

$ 21,951

$ —

Royalties

—

37,893

—

63,499

—

—

37,893

—

85,450

—

Costs and expenses

Product sales

—

—

—

696

—

Research and development

145,575

299,764

579,317

1,078,962

1,058,397

Selling, general and administrative

269,911

454,190

874,277

1,942,580

1,312,878

415,486

753,954

1,453,594

3,022,238

2,371,275

Operating loss	(415,486)	(716,061)	(1,453,594)	(2,936,788)	(2,371,275)

Other income (expense)

Interest and other expense

(96,532

)

(55,612

)

(279,573

)

(102,552

)

(351,951

)

Interest
and other income

500

558

1,606

8,202

2,290

(96,032

)

(55,054

)

(277,967

)

(94,350

)

(349,661

)

Net loss

$ (511,518)

$ (771,115)

$ (1,731,561)

$ (3,031,138)

$ (2,720,936)

Accumulated deficit - beginning

$ (24,101,122

)

$
(21,120,591

)

$
(22,881,079

)

$
(18,860,568

)

$
—

Accumulated
deficit - ending

$
(24,612,640

)

$
(21,891,706

)

$
(24,612,640

)

$
(21,891,706

)

$
(2,720,936

)

Basic
and diluted loss per common share

$
(0.04

)

$
(0.06

)

$
(0.14

)

$
(0.25

)

$
(0.22

)

Weighted
average common shares outstanding – basic and diluted

12,132,332

12,132,332

12,132,332

12,070,704

12,132,332

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

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30, 2009	NINE MONTHS ENDED SEPTEMBER 30, 2008	Cumulative from Re-entering Development Stage on OCTOBER 1, 2008 through SEPTEMBER 30, 2009
Cash flows from operations			
Net loss	$(1,731,561)	$(3,031,138)	$ (2,720,936)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for doubtful accounts	—	(1,193)	—
Depreciation and amortization	77,305	64,068	134,756
Stock compensation expense for employees and directors	64,217	46,723	92,595
Original issue discount	70,543	32,849	93,028
Termination of license	—	22,329	—
Patent impairment	17,267	—	205,674
Changes in operating assets and liabilities:			
Accounts receivable	—	11,729	—
Prepaid expenses and other current assets	(12,210)	51,651	14,569
Accounts payable and accrued expenses	699,661	1,126,687	1,094,700
Net cash used in operating activities	(814,778)	(1,676,295)	(1,085,614)
Cash flows from investing activities			
Purchases of property and equipment	—	(8,322)	—
Patent costs	(10,207)	(82,710)	(32,323)
Net cash used in investing activities	(10,207)	(91,032)	(32,323)
Cash flows from financing activities			
Bank overdraft	(46,915)	4,284	(19,637)
Proceeds for shareholder loans and notes payable	223,000	620,000	338,000
Proceeds from officer loans and notes payable	163,900	510,000	188,900
Proceeds from other loans and notes payable	485,000	160,000	593,000
Proceeds from sale of equity securities	—	152,519	—
Net cash provided by financing activities	824,985	1,446,803	1,117,937

Decrease in cash and cash equivalents	-	(320,524)	-
Cash and cash equivalents — beginning	-	320,524	-
Cash and cash equivalents — ending	$—	$—	$ —
Supplemental Cash Flow Information:			
Cash paid for interest	$—	$5,933	$ —
Warrants issued in connection with notes payable – non-cash	$62,296	$57,810	$ 73,138
Income taxes	$—	$—	$ —

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

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APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

1. The Company and Basis of Presentation

The Company

The accompanying unaudited interim financial statements of Apogee Technology, inc., a Delaware corporation, have been prepared in accordance with accounting principles generally accepted in the United States of American and the rules of the Securities and Exchange Commission and should be read in conjunction with the audited financial statements and notes thereto contained in our last Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected therein. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Apogee Technology, Inc., ("Apogee", "we", "us" or "our") is developing PyraDerm™, a proprietary intradermal drug deliv system for vaccines and other pharmaceuticals that we intend to market to pharmaceutical and medical device companies. Until March 31, 2009, we were also engaged in the development of IntellaPAL™, a proprietary sensor-based health monitoring systems for the elderly care and other markets that we intended to manufacture and market to individuals and health organizations. Our two major business activities were organized under our Life Science Group and our Health Monitoring Products Group. Apogee is currently considered to be a development stage company.

Apogee is developing PyraDerm, an advanced intradermal drug delivery system, to meet the needs of patients, health insurers and companies developing pharmaceuticals, as well as governments and international health organizations. We believe PyraDerm™ has advantages over competitive approaches for the delivery of vaccines, high potency therapeutic protein drugs and other pharmaceuticals. We have evaluated the feasibility of PyraDerm by performing in vitro tests with model drugs and demonstrated its potential for intradermal immunization in vivo. We are working to establish pharmaceutical industry compliant manufacturing methods and to define regulatory strategies to support its commercialization. Upon the completion of in vitro and in vivo evaluation of PyraDerm™, if successful, we intend to pursue licensing/development or partnership agreements with pharmaceutical companies interested in our technologies.

We have operated as a technology research and development stage company since October 1, 2008. We have not yet generated revenue from our principal operations. During the fiscal year ended December 31, 2008, due to our limited resources, we invested these resources predominately in the development of our Life Science Group. As of March 31, 2009, we closed down operations of our Health Monitoring Products Group. Costs associated with the closing of this group, as well as the termination of related employees are not material. Our sole focus is and will remain on the development and growth of our Life Science Group.

Basis of Presentation

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has recurring operating losses, negative cash flows from operations, negative working capital of approximately $5.8 million and stockholder's deficiency of approximately $5.6 million, is in arrears with substantially all of its vendors, and is in default on a majority of its Promissory Notes. This raises substantial doubt about our ability to continue as a going concern. Net losses were approximately $1.7 million and negative cash flows from operations were approximately $815,000 for the nine months ended September 30, 2009. Given our current cash position, net losses and negative cash flows from operations and our outstanding current obligations, we will not be able to continue as a going concern without raising additional capital which is not assured.

We had an overdraft of approximately $2,300 at September 30, 2009. As of August 11, 2010, we had cash of approximately $100,000. See Note 13 - Subsequent Events – Additional Financings.

The long-term success of Apogee is dependent upon our ability to raise additional funds to continue our operations, pay our outstanding liabilities and to successfully develop and market our technologies and products and to attain profitable operations. Although we have modified our business strategy to improve near-term financial performance, there can be no assurance that we will be able to obtain funds, to generate sufficient revenue, if any, or become profitable or that additional funds will be available to us on acceptable terms, if at all. Accordingly, we may be unable to implement current plans. In addition, if sufficient capital cannot be obtained, Apogee may be forced to cease operations. In the event that any future financing is affected, to the extent it includes equity securities; the holders of the common stock may experience additional dilution. In the event of a cessation of operations, there may not be sufficient assets to fully satisfy all creditors, in which case, the holders of securities may be unable to recoup any of their investment.

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

We are in the process of attempting to secure sufficient financing to meet our current obligations and to continue development of our technology. We have been working to obtain financing from outside investors for more than 24 months, but have not yet been successful. In the interim, short-term debt financing has been provided by Apogee's significant shareholders, including our President, Chief Executive Officer and Chairman of the Board of Directors, an individual investor and others, and has been utilized to keep product development moving forward. Additionally, cost cutting measures, including salary reduction for non-PyraDerm employees, diminished sensor development, deferral of capital expenditures, and reduced general spending, have been instituted until such time as financing is secured, if ever.

Due to the early stages of development of our products, we cannot estimate at this time the amounts of cash or the length of time that will be required to bring our products under development to market. It is expected that such costs will be funded not only by external funding, if available, but also through partnership activities. Without additional financing, we will be unable to continue operations.

On October 28, 2009, the Company received a "Wells Notice" from the staff of the Securities and Exchange Commission, which states the staff's intent to recommend that the Commission institute a public administrative proceeding against the Company, alleging that it violated Section 13(a) of the Securities Exchange Act of 1934. In connection with the contemplated proceedings, the staff may seek a suspension or revocation of registration of each class of the Company's registered securities. Also, the staff may consider whether contempt proceedings in a federal district court are appropriate. The Company submitted a response to this letter on November 16, 2009. Should suspension or revocation of our stock occur, the Company's ability to raise additional funding may be severely impacted.

See Note 13 – Subsequent Events for additional information.

Accounting Principles

The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America.

Consolidated Financial Statements

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

Use of Estimates in Financial Statements

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

2. Summary of Significant Accounting Policies

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APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

Accounting Standards: On July 1, 2009, the Financial Accounting Standards Board ("FASB") issued the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, also known as FASB Accounting Standards Codification ("ASC") 105-10, General Accepted Accounting Principles ("ASC 105-10"). ASC 105-10 established the FASB Accounting Standards Codification ("Codification") as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non -grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. GAAP was not intended to be changed as a result of the FASB's Codification project, but it will change the way the guidance is organized and presented. As a result, these changes will have a significant impact on how companies reference GAAP in their financial statements and in their accounting policies for financial statements issued for interim and annual periods ending after September 15, 2009. Apogee has implemented the Codification in this quarterly report by providing references to the Codification topics, as appropriate.

Revenue Recognition

Revenue is 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 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. 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.

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

In April of 2008, SigmaTel, Inc. agreed to pay Apogee a percentage of the royalties it received from STMicroelectronics NV ("ST") in exchange for supporting their royalty negotiations with ST. As a result of this agreement, Apogee received approximately $63,000 during the year ended December 31, 2008. On November 4, 2008 Apogee was notified by STMicroelectronics NV that they had reached an agreement with Freescale (formerly SigmaTel, Inc.) reducing the quarterly royalties due Freescale. The original agreement was a result of the transaction with SigmaTel, Inc. ("SigmaTel") whereby we sold certain assets of our audio division, including the DDX technology and the associated royalties from our license agreement with ST, for approximately $9.78 million. Upon acceptance by Freescale of the lower royalty payments, the arrangement agreed to between Freescale and Apogee in April 2008 was cancelled. No further revenue is expected under this arrangement.

Loss Per Share

Basic net loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted average number of common stock outstanding during the period. Diluted net loss per share is computed based on the weighted average number of common stock and dilutive potential common stock outstanding. 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. The calculation of diluted net loss per share excludes potential common stock as the effect is anti-dilutive.

Research and Development

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

Costs for research and development are expensed as incurred.

Legal Fees

We record legal costs (such as fees and expenses of outside legal counsel and other service providers) when incurred or when it is probable that a liability has been incurred on or before the balance sheet date and the amount can be reasonably estimated if invoices have not been received. Legal fees incurred pursuant to patent applications are part of the patent costs and capitalized.

Contingencies

Apogee is involved in and/or indemnifies others in various legal proceedings. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. See Note 10 – Legal and Related Indemnification with our Executives and Others.

Inventories

Inventories, including inventory held at distributors, are stated at the lower of cost on a first-in, first-out basis or market. This policy requires us to make estimates regarding the market value of our inventory, including an assessment of excess or obsolete inventory.

On January 15, 2008, we sold the remaining DDX inventory held in our Norwood office to one of our customers and on January 24, 2008, we sold the remaining DDX inventory housed in Hong Kong to one of our former DDX distributors. Total proceeds received from the disposition of the DDX inventory were $17,000.

Asset Impairment Charges

Long-lived assets to be held and used are reviewed to determine whether any events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The conditions considered include whether or not the asset has become obsolete, or whether external market circumstances indicate that the carrying amount may not be recoverable. Management performs analysis for impairment on a regular basis.

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

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. Management performs analysis for impairment on a regular basis.

Exclusive License Fee

We capitalized license fees paid to third parties for costs associated with the exclusive rights to their patents. We amortize these fees over a period of four years. During 2008, Apogee terminated the 2006 license agreement with the University of Akron Research Foundation and expensed the remaining license fees. In addition, during 2008, we expensed an additional $30,000, which represented the minimum royalty due under this terminated license agreement.

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

We carry trade receivables from customers less an allowance for doubtful accounts to ensure that trade receivables are carried at net realizable value. On a periodic basis, we evaluate the collectibility of our accounts receivable based on a variety of factors, including length of time receivables are past due, indication of customer ability to pay, significant one-time events and historical experience. 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 our customers change, estimates of the recoverability of receivables would be further adjusted.

Advertising

Advertising costs are expenses when incurred and were not significant for the three and nine months ended September 30, 2009 and 2008.

Fair Value of Financial Instruments

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

Stock-Based Compensation

We account for our stock based compensation as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards, “Accounting for Stock-Based Compensation” (SFAS 123(R)).

Accounting for Stock Compensation

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

We continue to calculate the expected stock price volatility based solely on historical volatility. We believe that historical volatility provides the best estimate of future stock price volatility.

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

We estimate the expected life of the option and determine a risk-free rate based on U.S. Treasury issues with remaining terms similar to the expected life of the option. We have never paid cash dividends and do not currently intend to pay cash dividends.

We estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

Apogee's stock compensation activity with respect to the nine months ended September 30, 2009 is summarized below:

Stock Options	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2008	3,068,100	$	4.4048	
Granted	—			
Exercised	—			
Cancelled or expired	135,600		0.6933	
Outstanding at September 30, 2009	2,932,500	$	4.5344	4.3770
Vested at September 30, 2009	2,637,900	$	4.9347	3.9893
Exercisable at September 30, 2009	2,637,900	$	4.9347	3.9893

The following table summarizes information about options outstanding as of September 30, 2009:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term		Weighted Average Exercise Price	Number Exercisable		Weighted Average Exercise Price
$0.25 — 1.69	1,054,900	6.5368	$	1.0203	717,300	$	1.0474
$2.71 — 6.59	1,282,600	2.5122	$	5.4065	1,299,200	$	5.4065
$8.45 — 12.15	595,000	4.5674	$	8.8849	599,000	$	8.8849
Total at September 30, 2009	2,932,500	4.3770	$	4.5344	2,615,500	$	4.9347

Apogee did not grant options during the nine months ended September 30, 2009. No options were exercised during nine months ended September 30, 2009 and 2008. During the nine months ended September 30, 2008, Apogee granted options to purchase 160,000 shares of its common stock at a weighted average fair market value of $0.6933. During the nine months ended September 30, 2009, options to purchase 135,600 shares of Apogee common stock vested. The weighted average fair value of these options was $0.8169. During the nine months ended September 30, 2009, options to purchase 135,600 shares of Apogee common stock were cancelled. Total stock-based compensation expense for the three and nine months ended September 30, 2009, was approximately $19,000 and $64,000, respectively, compared to approximately $14,000 and $47,000, respectively, for the three and nine months ended September 30, 2008. As of September 30, 2009, approximately 294,600 options to purchase approximately 294,600 shares of Apogee common stock with an approximate value of $89,998 are not yet vested.

Recent Accounting Pronouncements

Management does not believe there are any recently issued but not yet effective accounting pronouncements that will have a material effect on our financial statements and results of operation.

3. Accounts Receivable

Accounts receivable at September 30, 2009 and December 31, 2008 are comprised of the following:

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

Accounts Receivable	September 30, 2009	December 31, 2008 (Audited)
Distributor	$ —	$ —
Direct customers	9,377	9,377
	$ 9,377	$ 9,377
Less allowance for doubtful accounts	$ (9,377)	(9,377)
Net accounts receivable	$ —	$ —

4. Property and Equipment

Property and equipment at September 30, 2009 and December 31, 2008 are comprised of the following:

Property and Equipment	September 30, 2009	December 31, 2008 (Audited)
Equipment	$ 189,781	$ 189,781
Software	32,943	32,943
Furniture and fixtures	22,047	22,047
Leasehold improvements	92,892	92,892
	$ 337,663	$ 337,663
Less accumulated depreciation	(274,628)	(226,511)
	$ 63,035	$ 111,152

Depreciation expense was $8,141 and $24,423 for the three and nine months ended September 30, 2009, respectively, compared to $12,487 and $37,165 for the three and nine months ended September 30, 2008, 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

5. Asset Impairment

We recorded a patent impairment charge of approximately $17,000 at March 31, 2009. These patent applications were related to our Health Monitoring Group which was closed down as of March 31, 2009. In addition, for the three and nine months ended September 30, 2009, we amortized approximately $9,800 and $29,200, respectively, of patent application related expenses.

The values of patent costs are summarized in the table below:

	Gross Carrying Value	Accumulated Amortization	Accumulated Impairment	Net Book Value
December 31, 2008	$414,523	(37,227)	(228,407)	$148,889
March 31, 2009	$420,524	(46,833)	(245,674)	$128,017
June 30, 2009	$423,736	(56,599)	(245,674)	$121,463
September 30, 2009	$424,726	(66,411)	(245,674)	$112,641

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
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Estimated Amortization is as follows:

Year ended December 31,	
Three months ended December 2009	6,715
2010	34,628
2011	34,628
2012	34,628
2013	2,041

6. Accounts Payable and Accrued Expenses

Accrued expenses are included in accounts payable on the Balance Sheet. Accounts payable and accrued expenses are as follows:

Accounts Payable	September 30, 2009	December 31, 2008 (Audited)
Legal and accounting expenses	$1,712,000	$ 1,612,000
Consulting expenses	65,000	137,000
Interest owed to Promissory Note holders	324,000	113,000
Corporate insurance expenses	—	5,000
Director and Advisory Committee fees	86,000	43,000
Rent expenses	57,000	18,000
Other expenses	362,000	184,000
	$2,606,000	$ 2,112,000

Accrued Expenses	September 30, 2009	December 31, 2008 (Audited)
Accrued audit expenses	$127,000	$ 60,000
Accrued legal expenses	15,000	15,000
Accrued consulting expenses	45,000	56,000

Accrued payroll and payroll taxes	123,000	—
Other accrued expenses	50,000	24,000
	$360,000	$ 155,000

7. Promissory Notes, Loans and Warrants

During the three and nine months ended September 30, 2009, Apogee received $135,000 and $871,900, respectively, in proceeds from unsecured interest-bearing promissory notes. During the nine months ended September 30, 2009 Apogee received $163,900 from Mr. Herbert M. Stein, President, Chief Executive Officer and Chairman of the Board of Directors, $223,000 from Mr. David Spiegel, a major shareholder, $63,000 from The Spiegel Family Limited Partnership, $345,000 from Mr. Robert Schacter et al, $45,000 from Leo Spiegel, $30,000 from JAZFund LLC, and $2,000 from others. These promissory notes are payable upon demand, not subject to premium or penalty for prepayment, bear simple interest of 8% per annum, and are to be repaid in 180 days. An additional 4% interest will be charged after maturity. As of September 30, 2009, total unpaid interest of approximately $324,400 is due, consisting of $132,900 to Mr. Stein, $137,400 to Mr. Spiegel, $42,700 to Mr. Robert Schacter et al and $11,400 to others.

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

Through September 30, 2009, Apogee has received total proceeds from loans and promissory notes of $2.8 million, consisting of $1.1 million, $948,900, $585,000 and $168,000 from Mr. Spiegel, Mr. Stein, Mr. Schacter and others, respectively.

As of September 30, 2009, promissory notes in the amount of $2,353,900 are in default and accruing post-maturity interest.

Promissory Notes and Loans Due To
David Spiegel

Date of Promissory Note	Amount	Maturity Date	Initial Interest Rate	Current Interest Rate
December 11, 2007	$150,000	March 10, 2008	8.00%	12.00%
February 21, 2008	100,000	August 19, 2008	8.00%	12.00%
March 20, 2008	100,000	September 16, 2008	8.00%	12.00%
April 1, 2008	50,000	September 28, 2008	8.00%	12.00%
May 15, 2008	50,000	November 11, 2008	8.00%	12.00%
June 16, 2008	65,000	December 13, 2008	8.00%	12.00%
June 18, 2008	50,000	December 15, 2008	8.00%	12.00%
July 15, 2008	50,000	January 11, 2009	8.00%	12.00%
July 28, 2008	50,000	January 24, 2009	8.00%	12.00%
August 12, 2008	35,000	February 8, 2009	8.00%	12.00%
August 27, 2008	35,000	February 23, 2009	8.00%	12.00%
September 5, 2008	35,000	March 4, 2009	8.00%	12.00%
October 27, 2008	35,000	April 25, 2009	8.00%	12.00%
January 6, 2009	80,000	July 5, 2009	8.00%	12.00%
March 19, 2009	64,000	September 15, 2009	8.00%	12.00%
May 19, 2009	35,000	November 15, 2009	8.00%	12.00%
June 10, 2009	25,000	December 7, 2009	8.00%	12.00%
July 1, 2009	32,000	December 28, 2009	8.00%	12.00%
November 5, 2009*	67,000	May 4, 2010	8.00%	8.00%
	$1,108,000			

Promissory Notes and Loans
Due To
Herbert M. Stein

Date of	Maturity	Initial	Current

Promissory Note	Amount	Date	Interest Rate	Interest Rate
December 11, 2007	$ 250,000	March 10, 2008	8.00 %	12.00 %
February 21, 2008	100,000	August 19, 2008	8.00 %	12.00 %
March 20, 2008	50,000	September 16, 2008	8.00 %	12.00 %
April 1, 2008	50,000	September 28, 2008	8.00 %	12.00 %
May 15, 2008	50,000	November 11, 2008	8.00 %	12.00 %
June 16, 2008	35,000	December 13, 2008	8.00 %	12.00 %
June 18, 2008	40,000	December 15, 2008	8.00 %	12.00 %
July 15, 2008	30,000	January 11, 2009	8.00 %	12.00 %
July 28, 2008	50,000	January 24, 2009	8.00 %	12.00 %
August 12, 2008	35,000	February 8, 2009	8.00 %	12.00 %
August 27, 2008	35,000	February 23, 2009	8.00 %	12.00 %
September 5, 2008	35,000	March 4, 2009	8.00 %	12.00 %
October 27, 2008	25,000	April 25, 2009	8.00 %	12.00 %
February 2, 2009	30,000	August 1, 2009	8.00 %	12.00 %
February 17, 2009	10,000	August 16, 2009	8.00 %	12.00 %
March 19, 2009	25,900	September 15, 2009	8.00 %	12.00 %
April 13, 2009	33,000	October 10, 2009	8.00 %	12.00 %
May 18, 2009	12,000	November 14, 2009	8.00 %	12.00 %
July 1, 2009	20,000	December 28, 2009	8.00 %	12.00 %
November 5, 2009**	33,000	May 4, 2010	8.00 %	8.00 %
	$ 948,900			

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Promissory Notes and Loans Due To
Robert Schacter et al

Date of Promissory Note	Amount	Maturity Date	Initial Interest Rate		Current Interest Rate	
September 5, 2008	$140,000	March 4, 2009	8.00	%	12.00	%
October 27, 2008	100,000	April 25, 2009	8.00	%	12.00	%
January 8, 2009	100,000	July 7, 2009	8.00	%	12.00	%
February 2, 2009	50,000	August 1, 2009	8.00	%	12.00	%
February 17, 2009	50,000	August 16, 2009	8.00	%	12.00	%
March 19, 2009	50,000	September 15, 2009	8.00	%	12.00	%
April 13, 2009	20,000	October 10, 2009	8.00	%	12.00	%
June 10, 2009	25,000	December 7, 2009	8.00	%	12.00	%
November 5, 2009	50,000	May 4, 2010	8.00	%	8.00	%
	$585,000					

Promissory Notes and Loans
Due To
Others

Date of Promissory Note		Amount	Maturity Date	Initial Interest Rate		Current Interest Rate	
July 28, 2008	$	20,000	March 4, 2009	8.00	%	12.00	%
October 27, 2008		6,000	April 25, 2009	8.00	%	12.00	%
January 6, 2009		500	July 5, 2009	8.00	%	12.00	%
February 17, 2009		37,000	August 16, 2009	8.00	%	12.00	%
March 19, 2009		500	September 15, 2009	8.00	%	12.00	%
April 13, 2009		61,500	October 12 2009	8.00	%	12.00	%
May 18, 2009		32,500	November 14, 2009	8.00	%	12.00	%
November 5, 2009		10,000	May 4, 2010	8.00	%	8.00	%
	$	168,000					

* This amount excludes funds received subsequent to September 30, 2009. Total received $103,000.

** This amount excludes funds received subsequent to September 30, 2009. Total received $42,500.

The promissory notes issued to Messrs. Stein and Spiegel from December 11, 2007 through March 19, 2009 for an aggregate of $1,799,900 are incurring a post-maturity rate of interest of 12% compounded monthly. The promissory notes originally were issued with simple interest of 8% per year and were to be repaid in cash after 90 days for the December 11, 2007 and 180 days for the remaining promissory notes. The effective interest rate is approximately 19%.

The following tables represent the net payable from promissory notes and loans as of September 30, 2009:

	Officer Loans Herbert M. Stein	Shareholder Loans David Spiegel	Total
Total proceeds from Loans and Promissory Notes	$ 948,900	$ 1,108,000	$ 2,056,900
Discount (Fair Market Value of Warrants)	(592)	(2,040)	(2,632)
	$ 948,308	$ 1,105,960	$ 2,054,268

	Loans Robert Schacter et al	Loans Others	Total
Total proceeds from Loans and Promissory Notes	$ 585,000	$ 168,000	$ 753,000
Discount (Fair Market Value of Warrants)	(1,031)	(514)	(1,545)
	$ 583,969	$ 167,486	$ 751,455

In connection with the issuance of the promissory notes, we issued warrants to purchase our common stock. Each warrant expires three years from issue date with an exercise price of $1.00 per share. As of September 30, 2009, these warrants represent, in the aggregate, an underlying ninety-five thousand eight hundred (95,800) shares of common stock for Mr. Spiegel, an underlying seventy thousand eight hundred forty (70,840) shares of common stock for Mr. Stein, an underlying one hundred thirty-two thousand seven hundred fifty (132,750) shares of common stock for Mr. Schacter, and an underlying twenty-six thousand five hundred fifty (26,550) shares of common stock for others. These warrants were issued as added consideration for the notes. These warrants include customary terms and include a cashless or net exercise provision for exercise. The values of these warrants were determined by using the Black Scholes valuation model.

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David Spiegel

Date of Warrant	Number of Shares	Stock Price At Date of Issuance	Term of Warrant	Strike Price	Risk Free Interest Rate	Volatility	Value Per Warrant	Total Value
February 21, 2008	10,000	$0.65	3 Years	$1.00	2.23	98.45824%	$0.3462	$3,462.00
March 20, 2008	10,000	$0.70	3 Years	$1.00	1.71	99.87467%	$0.3867	3,867.00
April 1, 2008	5,000	$0.85	3 Years	$1.00	1.94	100.00925%	$0.5042	2,526.00
May 15, 2008	5,000	$0.83	3 Years	$1.00	2.70	102.78266%	$0.5036	2,518.00
June 16, 2008	6,500	$0.63	3 Years	$1.00	3.33	104.12541%	$0.3555	2,310.75
June 18, 2008	5,000	$0.61	3 Years	$1.00	3.19	104.07197%	$0.3397	1,698.50
July 15, 2008	5,000	$0.87	3 Years	$1.00	2.70	104.55357%	$0.5429	2,714.50
July 28, 2008	5,000	$0.75	3 Years	$1.00	2.90	104.54508%	$0.4481	2,240.60
August 12, 2008	3,500	$0.75	3 Years	$1.00	2.73	104.93498%	$0.4488	1,570.80
August 27, 2008	3,500	$0.85	3 Years	$1.00	2.58	106.26182%	$0.5331	1,865.85
September 5, 2008	3,500	$0.86	3 Years	$1.00	2.44	106.21122%	$0.5404	1,891.40
October 27, 2008	3,500	$0.60	3 Years	$1.00	1.83	108.82589%	$0.3431	1,200.85
January 6, 2009	8,000	$0.75	3 Years	$1.00	1.10	108.80131%	$0.4566	3,652.80
March 19, 2009	6,400	$0.68	3 Years	$1.00	1.21	109.80676%	$0.4057	2,596.48
May 19, 2009	3,500	$0.70	3 Years	$1.00	1.37	111.74849%	$0.4288	1,500.80
June 10, 2009	2,500	$0.60	3 Years	$1.00	2.00	126.10551%	$0.3959	989.75
July 1, 2009	3,200	$0.87	3 Years	$1.00	1.57	128.93341%	0.6295	2,014.40
November 5, 2009	6,700	$1.02	3 Years	$1.00	1.44	131.45892%	$0.7681	7,911.43
Total	95,800							$46,531.81

Herbert M. Stein

Date of Warrant	Number of Shares	Stock Price At Date of Issuance	Term of Warrant	Strike Price	Risk Free Interest Rate	Volatility	Value Per Warrant	Total Value
February 21, 2008	10,000	$0.65	3 Years	$1.00	2.23	98.45824%	$0.3462	$3,462.00
March 20, 2008	5,000	$0.70	3 Years	$1.00	1.71	99.87467%	$0.3867	1,933.50
April 1, 2008	5,000	$0.85	3 Years	$1.00	1.94	100.00925%	$0.5042	2,526.00
May 15, 2008	5,000	$0.83	3 Years	$1.00	2.70	102.78266%	$0.5036	2,518.00
June 16, 2008	3,500	$0.63	3 Years	$1.00	3.33	104.12541%	$0.3555	1,244.25
June 18, 2008	4,000	$0.61	3 Years	$1.00	3.19	104.07197%	$0.3397	1,358.80

July 15, 2008	3,000	$0.87	3 Years	$1.00	2.70	104.55357%	$0.5429	1,628.70
July 28, 2008	5,000	$0.75	3 Years	$1.00	2.90	104.545 08%	$0.4481	2,240.60
August 12, 2008	3,500	$0.75	3 Years	$1.00	2.73	104.93498%	$0.4488	1,570.80
August 27, 2008	3,500	$0.85	3 Years	$1.00	2.58	106.26182%	$0.5331	1,865.85
September 5, 2008	3,500	$0.86	3 Years	$1.00	2.44	106.21122%	$0.5404	1,891.40
October 27, 2008	2,500	$0.60	3 Years	$1.00	1.83	108.82589%	$0.3431	857.75
February 2, 2009	3,000	$0.70	3 Years	$1.00	1.27	109.04276%	$0.4188	1,256.40
February 17, 2009	1,000	$0.83	3 Years	$1.00	1.22	109.04322%	$0.5219	521.90
March 19, 2009	2,590	$0.68	3 Years	$1.00	1.21	109.80676%	$0.4057	1,050.76
April 13, 2009	3,300	$0.60	3 Years	$1.00	1.27	110.59204%	$0.3469	1,144.77
May 18, 2009	1,200	0.70	3 Years	$1.00	1.36	111.77410%	$0.4288	514.56
July 1, 2009	2,000	$0.87	3 Years	$1.00	1.57	128.93341%	0.6295	1,259.20
November 5, 2009	4,250	$1.02	3 Years	$1.00	1.44	131.45892%	$0.7681	3,264.43
Total	70,840							$32,109.67

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Robert Schacter et al*

Date of Warrant	Number of Shares	Stock Price At Date of Issuance	Term of Warrant	Strike Price	Risk Free Interest Rate	Volatility	Value Per Warrant	Total Value
September 5, 2008	14,000	$0.86	3 Years	$1.00	2.44	106.21122%	$0.5404	$ 7,565.60
October 27, 2008	25,000	$0.60	3 Years	$1.00	1.83	108.82589%	$0.3431	8,577.50
January 8, 2009	25,000	$0.90	3 Years	$1.00	1.16	108.85621%	$0.5777	14,442.50
February 2, 2009	12,500	$0.70	3 Years	$1.00	1.27	109.04276%	$0.4188	5,235.00
February 17, 2009	12,500	$0.83	3 Years	$1.00	1.22	109.04322%	$0.5219	6,523.75
March 19, 2009	12,500	$0.68	3 Years	$1.00	1.21	109.80676%	$0.4057	5,071.25
April 13, 2009	5,000	$0.60	3 Years	$1.00	1.27	110.59204%	$0.3469	1,734.50
June 10, 2009	6,250	$0.60.	3 Years	$1.00	2.00	126.10551%	$0.3959	2,474.38
November 5, 2009	20,000	$1.02	3 Years	$1.00	1.44	131.45892%	$0.7681	15,362.00
Total	132,750							$ 66,986.48

*128,750 warrants issued in the name of TYJO Corporation Money Purchase Pension Plan, 2,000 warrants issued in the name of Mr. Robert Schacter, as Custodian for Tyler Schacter UTMA/CA and 2,000 warrants issued in the name of Mr. Robert Schacter, as Custodian for Joseph Schacter UTMA/CA.

Others

Date of Warrant	Number of Shares	Stock Price At Date of Issuance	Term of Warrant	Strike Price	Risk Free Interest Rate	Volatility	Value Per Warrant	Total Value
July 28, 2008	2,000	$0.75	3 Years	$1.00	2.90	104.545 08%	$0.4460	$ 892.00
October 27, 2008	600	$0.60	3 Years	$1.00	1.83	108.82589%	$0.3431	205.86
January 6, 2009	50	$0.75	3 Years	$1.00	1.10	108.80131%	$0.4566	22.83
February 17, 2009	8,950	$0.83	3 Years	$1.00	1.22	109.04322%	$0.5219	4,671.01
March 19, 2009	50	$0.68	3 Years	$1.00	1.21	109.80676%	$0.4057	20.29
	10,650	$0.60	3 Years	$1.00	1.27	110.59204%	$0.3469	3,694.49

April 13, 2009									
May 18, 2009	3,200	0.70	3 Years	$1.00	1.36	111.77410%	$0.4288		1,372.15
May 19 2009	50	$0.70	3 Years	$1.00	1.37	111.74849%	$0.4288		21.44
November 5, 2009	1,000	$1.02	3 Years	$1.00	1.44	131.45892%	$0.7681		768.10
Total	26,550							$	11,668.17

The carrying value of the notes and loans payable approximate fair value due to their short-term maturity.

8. Stockholders' Deficiency

Preferred Stock

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At our Annual Meeting held on August 28, 2007, our shareholders approved an Amendment to the Amended and Restated Certificate of Incorporation authorizing five million shares of undesignated preferred stock. These shares will have future rights and preferences to be determined at the sole discretion of our Board of Directors. No preferred stock has been issued.

Common Stock

On April 9, 2008, Apogee sold 164,000 shares of our common stock to accredited investors at a price of $1.00 per share. The net proceeds to Apogee were $152,519, which we have used for general working capital and corporate purposes. The shares of Apogee's common stock were issued and sold in a private placement in reliance on an exemption from registration provided by Section 4(2) of Securities Act of 133, as amended, and Rule 506 of Regulation D promulgated thereunder. The shares of common stock issued in this private placement were not registered under the Securities Act of 1933 and may not be subsequently offered or sold by the investors in the United States absent registration or an applicable exemption from the registration requirements.

Stock Options

During the nine months ended September 30, 2009 no stock options were awarded. During the three months ended September 30, 2008, we awarded each of our outside directors' options to purchase 40,000 shares, at an exercise price of $1.00 per share. These options were granted under the 2007 Plan. The options granted to these employees vest over five years beginning at the first anniversary of the date of grant.

9. Related Party Transactions

Apogee rents its facility from an entity controlled by a stockholder for $4,400 per month pursuant to a lease that expired December 31, 2005. Currently, we are renting the facility on a month-to-month basis. Rent expense was $52,800 for the fiscal years ended December 31, 2008. Rent has been accrued and remains unpaid since September 2008. See also Note 7 – Promissory Notes, Loans and Warrants from Officers and Significant Stockholders.

10. Legal and Related Indemnification Arrangements with our Executives and Others

Apogee has assumed and will continue to assume the final legal costs and related expenses of Herbert M. Stein, in connection with the civil action styled Joseph Shamy vs. Herbert M. Stein, Case No.: 50 2005 CA 007719 XXXXMB. In this action instituted in the 15th Judicial Circuit in and for Palm Beach County, Florida (the "Court), Joseph Shamy sued Herbert M. Stein, President, Chief Executive Officer and Chairman of the Board of Apogee in connection with Shamy's purchase of Apogee shares in 2003 and 2004. In February 2009, in connection with a settlement, the Court entered a Final Judgment against Mr. Stein. In early January 2010, a filing was made with the Court to memorialize the Total and Complete Satisfaction of Judgment, which states that all sums due under the civil action were fully paid and that the Final Judgment was satisfied and canceled. Further, the Clerk of the Court was directed to note satisfaction of the Final Judgment and cancellation of all judgments of record in this action. Apogee was not a party to the aforementioned settlement or the satisfaction of the Final Judgment. Through January 1, 2010, we have incurred approximately $887,000 toward this indemnification. For the three and nine months ended September 30, 2009, we have incurred approximately $9,000 and $81,000, respectively, compared to approximately $14,000 and $89,000, respectively for the three and nine months ended September 30, 2008.

The Company first became aware of an investigation by the SEC in May 2005. The subject matter of this investigation was the Company's prior revenue recognition practices that were addressed in the Company's restatement of its financial statements for the fiscal year ended December 31, 2004. As previously disclosed in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, as amended, Apogee’s Audit Committee, with the assistance of independent counsel, conducted an investigation into Apogee’s historical accounting practices that resulted in the implementation of remedial actions. See our Annual Report on Form 10-KSB for the year ended December 31, 2004, as amended, for detail regarding the restatement.

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In July 2008, Apogee, it's Chief Executive Officer and other employees received notifications from the Staff of the SEC relating to the Staff's 2005 investigation. These notifications, known as "Wells Notices," stated that the Staff is considering recommending that the Commission bring enforcement actions against the Company and certain employees, based on alleged violations of certain provisions of the federal securities laws, including Section 17(a) of the Securities Act of 1933, as amended, Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder, Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1 and 13a-13 thereunder. The Wells Notice sent to the Company indicates that in any action actually brought against the Company, the Staff would seek an injunction against future violations of the federal securities laws as relief.

On May 19, 2009, the Securities and Exchange Commission ("commission") filed a settled enforcement action against the Company, one employee, and one former employee ("Others") in connection with Apogee's prior revenue recognition practices. Each of the defendants has agreed to settle this matter, without admitting or denying the allegations of the Commission's complaint. Apogee and others agreed to the entry of a final judgment permanently enjoining them from variously violating or aiding and abetting violations of Sections of the Securities Act of 1933, and Sections of the Securities Exchange Act of 1934, and various Rules. The others also agreed to financial and other sanctions. Through January 1, 2010, we have incurred approximately $554,000 toward this indemnification. We did not incur any expense toward this indemnification for the three months ended September 30, 2009. For the nine months ended September 30, 2009, we have incurred approximately $1,600, compared to approximately $118,000 and $533,000 for the same periods in 2008. See Note 13 - Subsequent Events – Notification from the Securities and Exchange Commission.

As of March 31, 2009, Apogee's Directors and Officers Liability Insurance was cancelled due to non-payment. Apogee may be required to pay any uninsured claims and related costs.

On October 28, 2009, the Company received a "Wells Notice" from the staff of the Securities and Exchange Commission – See Note 13 – Subsequent Events – SEC Administrative Proceeding.

11. Tax Loss Carryforwards

The following approximates the net loss carryforwards we have available in the future for federal and state tax purposes as of December 31, 2008 (audited):

	December 31, 2008	December 31, 2007
Net operating loss carryforwards		
Federal	$ 19,000,000	$ 15,000,000
State	$ 12,000,000	$ 9,200,000

Business credits available in the future:

	December 31,	December 31,

		2008		2007
Business credits available in the future				
Federal	$	940,000	$	980,000
State	$	330,000	$	300,000

The Company does not record a net tax benefit asset due to the uncertainty of its realization.

The net operating loss carryforwards will begin to expire in 2018 for federal tax purposes and in 2009 for state tax purposes. The federal and state credits will begin to expire in 2017.

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Significant changes in our ownership may substantially reduce the available carryforwards and related tax benefits.

12. Supplemental Cash Flow Information

As of September 30, 2009, we recorded cumulatively approximately $456,000 in interest expense of which approximately $7,700 was paid. We recorded interest expense of approximately $97,000 and $280,000 for the three and nine months ended September 30, 2009, respectively, compared to approximately $56,000 and $103,000 for the same periods in 2008.

13. Subsequent Events

Additional Financings

The following table details all financings subsequent to September 30, 2009:

Date of Loan or Promissory Note and Warrant	Amount of Loan or Note	Maturity Date	Interest	Number of Warrants	Risk Free Interest Rate	Volatility	Value Per Warrant	Total Value of Warrants
David Spiegel								
November 5, 2009*	$36,000	May 4, 2010	8.00%	3,600	1.44	131.4589%	$0.7681	$2,765.16
December 21, 2009	68,000	June 19, 2010	8.00%	6,800	1.42	133.8376%	$0.8029	5,459.72
January 25, 2010	4,665	July 24, 2010	8.00%	466	1.40	134.8047%	$0.7268	338.69
April 16, 2010	16,000	October 13, 2010	8.00%	1,600	1.56	136.4302%	$0.6800	1,088.00
June 4, 2010	14,000	December 1, 2010	8.00%	1,400	1.17	153.1282%	$0.3740	523.60
August 11, 2010	100,000	February 7, 2011	8.00%	10,000	0.81	157.1615%	$0.2115	2,115.00
	$238,665			23,866				$12,290.17

*This amount excludes funds received prior to September 30, 2009. Total received $103,000.

Date of Loan or Promissory Note and Warrant	Amount of Loan or Note	Maturity Date	Interest	Number of Warrants	Risk Free Interest Rate	Volatility	Value Per Warrant	Total Value of Warrants
Herbert M. Stein								
November 5, 2009*	$9,500	May 4, 2010	8.00%	950	1.44	131.4589%	$0.7681	$ 729.70
December 21, 2009	83,500	June 19, 2010	8.00%	8,350	1.42	133.8376%	$0.8029	6,704.22
January 25, 2010	79,000	July 24, 2010	8.00%	7,900	1.40	134.8047%	$0.7268	5,741.72
February 22, 2010	66,000	August 21, 2010	8.00%	6,600	1.48	134.4382%	$0.5011	3,307.26
April 16, 2010	86,500		8.00%	8,650	1.56	136.4302%	$0.6800	5,882.00

		October 13, 2010						
June 4, 2010	116,000	December 1, 2010	8.00%	11,600	1.17	153.1282%	$0.3740	4,338.40
August 11, 2010	45,700	February 7, 2011	8.00%	4,570	0.81	157.1615%	$0.2115	1,002.51
	$486,200			48,620				$27,705.81

*This amount excludes funds received prior to September 30, 2009. Total received $42,500.

Date of Loan or Promissory Note and Warrant	Amount of Loan or Note	Maturity Date	Interest	Number of Warrants	Risk Free Interest Rate	Volatility	Value Per Warrant	Total Value of Warrants
Robert Schacter et al								
July 9, 2010*	25,000							

* It has not yet been determined whether these funds are to be considered a loan or equity.

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Date of Loan or Promissory Note and Warrant Other	Amount of Loan or Note	Maturity Date	Interest	Number of Warrants	Risk Free Interest Rate	Volatility	Value Per Warrant	Total Value of Warrants
November 5, 2009	$60,000	May 4, 2010	8.00%	15,000	1.44	131.4589%	$0.7681	$11,521.50
December 21, 2009	2,563	June 19, 2010	8.00%	256	1.42	133.8376%	$0.8029	205.54
January 25, 2010	30,000	July 24, 2010	8.00%	7,500	1.40	134.8047%	$0.7268	5,451.00
June 4, 2010	20,000	December 1, 2010	12.00%	27,500	1.17	153.1282%	$0.3740	10,285.00
	$122,563			50,256				$27,193.04

All warrants have been issued.

All warrants have been issued at an exercise price of $1.00, had a three-year term and were issued as additional consideration for the promissory notes. Upon reaching maturity, interest on these loans is compounded monthly and increased by 4 percentage points. See below for details related to the conversion of accrued interest by two note holders in June 2010.

Sale of Common Stock

On May 24, 2010 and June 4, 2010 Apogee received $50,000 and $25,000, respectively, from TYJO Corporation Money Purchase Pension Plan for the purchase of 75,000 shares of Apogee common stock and warrants to purchase 37,500 shares of Apogee common stock. These warrants are exercisable immediately upon issuance, for a term of three years at an exercise price of $1.00 per share.

Interest Conversion

On June 26, 2010 the Company completed an offer to its Note holders whereby Note holders could convert all interest amounts accrued and unpaid as of April 15, 2010 into the Company's Common Stock at a price of $1 per share. Two Note holders accepted this offer:

Note Holder	Interest Converted
Herbert M. Stein	$ 204,098
Robert Schacter, et al	82,024

Total interest converted	$	286,122

This transaction resulted in a gain on extinguishment of debt of $32,810 as a result of the interest conversion by Mr. Schacter. This transaction was recorded as of June 30, 2010. The interest conversion by Mr. Stein was recorded as a capital transaction and recorded in Additional Paid-In capital.

Promissory Notes Conversion

Mr. Robert Schacter requested that the $545,000 in Promissory Notes outstanding at December 31, 2009 in the name of Robert Schacter (TYJO Corp. Money Purchase Pension Plan), and $20,000 each issued in the names of Mr. Robert Schacter, as Custodian for Tyler Schacter UTMA/CA and Mr. Robert Schacter, as Custodian for Joseph Schacter UTMA/CA be converted to shares of Apogee Common Stock. On June 4, 2010 the Board of Directors approved this transaction and authorized the issuance of 585,000 shares of Apogee Technology, Inc. Common Stock price of $1.00 per share. The closing price on June 4, 2010 was $0.50; accordingly, the Company recorded a $292,500 gain on extinguishment of this debt at June 30, 2010.

APOGEE TECHNOLOGY, INC. AND SUBSIDIARY
(A Development Stage Company)
Notes to Unaudited Consolidated Financial Statements
September 30, 2009 and September 30, 2008

Additional Warrants

In consideration of his continued financial support, the Board of Directors, on June 4, 2010, approved the issuance of warrants to purchase 151,750 shares of Apogee common stock to Mr. Robert Schacter et al. The Company used the Black Scholes method to value these warrants. As a result of this transaction, the Company recorded a $56,754 expense during the second quarter ended June 30, 2010. These warrants are exercisable immediately upon issuance, for a term of three years at an exercise price of $1.00 per share.

Private Placement

Apogee has received $45,000 as part of an on-going Private Placement for 45,000 shares of Apogee common stock and warrants to purchase 22,500 shares of Apogee common stock. Proceeds as of July 28, 2010 were $41,850 net of $3,150 in expenses. These warrants are exercisable immediately upon issuance, for a term of three years at an exercise price of $1.00 per share.

Total Warrants issued through August 11, 2010 is 659,482 as detailed below:

Stock/Note Holder	Number of Interest Warrants Issued
Herbert M. Stein	118,510
David Spiegel	119,666
Robert Schacter et al	322,000
Others	99,306
Total Warrants issued through August 11, 2010	659,482

Notification from the Securities and Exchange Commission

On May 19, 2009, the Securities and Exchange Commission (“commission”) filed a settled enforcement action against the Company, one employee, and one former employee (“Others”) in connection with a with the revenue recognition practices. Each of the defendants has agreed to settle this matter, without admitting or denying the allegations of the Commission’s complaint. Apogee and others agreed to the entry of a final judgment permanently enjoining them from variously violating or aiding and abetting violations of Sections of the Securities Act of 1933, and Sections of the Securities Exchange Act of 1934, and various Rules. The others also agreed to financial and other sanctions.

SEC Administrative Proceedings

Due to its financial condition, the Company had been unable to fund payments to its auditors. Accordingly, the Company did not timely file its 2008 Annual Report on 10-K, as well as quarterly reports on Form 10-Q for the quarters ended March 31, 2009, June 30, 2009, and September 30, 2009. Additionally, it had not timely filed Form 8-K and related Form 4s.

On October 28, 2009, the Company received a "Wells Notice" from the staff of the Securities and Exchange Commission, which states the staff's intent to recommend that the Commission institute a public administrative proceeding against the Company, alleging that it violated Section 13(a) of the Securities Exchange Act of 1934.

In connection with the contemplated proceedings, the staff may seek a suspension or revocation of each class of the Company's registered securities. Also, the staff may consider whether contempt proceedings in a federal district court are appropriate. The Company submitted a response to this letter as of November 16, 2009. Suspension or revocation may substantially impact the Company's ability to obtain funding.

Subsequently, on December 18, 2009 we filed our 2008 Annual Report on Form 10-K and filed our 2009 Quarterly Reports on Form 10-Q for the periods ended June 30, 2009 and September 30, 2009 in January 2010.

As noted above, the Company, on December 18, 2009, filed its delinquent financial report on Form 10-K for the year ended December 31, 2008. This report contained a Disclaimer of Opinion by its Independent Accountants due to significant uncertainty as to the Company's ability to be a going concern. On April 16, 2010 the SEC issued an Order for an Administrative Hearing based on a claim that the filing as well as Form 10-Q's for the first three quarters of 2009, which had been filed on January 15, 2010, were materially deficient due to the Disclaimer of Opinion and thus the filings remained delinquent. The Disclaimer of Opinion was removed on a subsequent filing. The Company was also delinquent on its Form 10-K for the Year ended December 31, 2009. An Order of Suspension of trading in the Company's securities was enacted at that time. The Company also did not file its Form 10-Q for the quarter ended March 31, 2010.

In June 2010 the SEC and the Company entered into a Settlement agreement without the above mentioned Hearing, under which the Company would file all its delinquent filings without a material deficiency by a mutually agreed date. Failure to do so would activate an Order to revoke the ability for the Company's securities to trade on an exchange.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations for the three and nine-month periods ended September 30, 2009 and September 30, 2008, should be read in conjunction with the Company's Financial Statements and related footnotes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains, in addition to historical statements, forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include the factors discussed in the section titled ITEM 1A – RISK FACTORS, as well as other factors described in our Annual Report on Form 10-K for the year ended December 31, 2008.

OVERVIEW

We are developing proprietary intradermal drug delivery systems for vaccines and other pharmaceuticals that we intend to market to pharmaceutical and medical device companies, government and world health organizations. Our Life Science Group is developing PyraDerm™, an advanced intradermal drug delivery system to meet the needs of patients, health insurers and companies developing pharmaceuticals, as well as, governments and international health organizations. We believe that PyraDerm has advantages over competitive approaches for the delivery of vaccines, high potency therapeutic protein drugs and other pharmaceuticals. We have evaluated the feasibility of PyraDerm by performing in vitro tests with model drugs and conducted successful in vivo testing of PyraDerm in the intradermal immunization experiments. We are working to establish pharmaceutical industry compliant manufacturing methods and to define regulatory strategies to support its commercialization.

Our sole focus remains on developing and growing the Life Science Group, subject to our ability to secure additional financing to support our operations and repay our existing indebtness. We expect that future revenue, if any, will initially be the result of potential licensing and development revenues resulting from the grant of rights to our intellectual property.

During the three and nine months ended September 30, 2008, virtually all of our revenue was derived from the sale of the remaining DDX audio IC inventory and of royalty revenue. In April 2008, SigmaTel, Inc. agreed to pay Apogee a percentage of the royalties it received from STMicroelectronics NV ("ST") in exchange for supporting their royalty negotiations with ST. As a result of this agreement, Apogee received approximately $38,000 and $63,000 for the three and nine months ended September 30, 2008. With the acquisition of SigmaTel by Freescale, Inc. in April 2008, there can be no assurance of future payments under this arrangement.

At September 30, 2009, we had an accumulated deficit of approximately $24.6 million, as compared to a deficit of approximately $22.9 million as of December 31, 2008. Since re-entering development stage on October 1, 2008, we have an accumulated deficit of approximately $2.7 million, as compared to a deficit of approximately $989,000 as of December 31, 2008. 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 PyraDerm™.

Through September 30, 2009, we have received approximately $2.8 million in loans. Since September 30, 2009, we have received approximately $1.0 million in funding, which has been inadequate to meet the current needs of the Company resulting in non-payment of loan principal and interest, vendors, payroll, payroll withholding, and payroll taxes for the third and fourth quarters of 2009. The proceeds from these loans were used to pay unpaid payroll and payroll taxes up through and including payroll for the period ended December 15, 2009 and to pay payroll and related costs to date. These amounts exclude payroll and payroll taxes for Mr. Herbert M. Stein, who has not drawn cash compensation from Apogee since June 30, 2009. See Note 13 to the consolidated financial statements - Subsequent Events – Additional Financings.

As of September 30, 2009, we had 8 employees, compared to 13 employees at September 30, 2008. Effective as of June 9, 2008 through October 31, 2009, 5 of the remaining employees transitioned to part-time status in an effort to reduce human resource costs. As of November 1, 2009 the majority of employees have returned to full time.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data for the three- and nine-month periods ended September 30, 2009 and 2008 have been derived from our unaudited financial statements. Any trends reflected by the following table may not be indicative of future results.

	For the Three-Month Period Ended September 30,		For the Nine-Month Period Ended September 30,	
	2009	2008	2009	2008
Statement of Operations Data:				
Revenue	$—	$37,893	$—	$85,450
Costs and expenses	(415,486)	(753,954)	(1,453,594)	(3,022,238)
Other Income (expenses)	(96,032)	(55,054)	(277,967)	(94,350)
Net Loss	$(511,518)	$(771,115)	$(1,731,561)	$(3,031,138)
Shares Outstanding	12,132,332	12,132,332	12,132,332	12,070,704
Total Assets	$196,220	$518,896	$196,220	$518,896
Stockholders' deficiency	$(5,578,758)	$(3,023,556)	$(5,578,758)	$(3,023,556)
Loss per share (basic and fully diluted)	$(0.04)	$(0.06)	$(0.14.)	$(0.25)

	Cumulative from Re-entering Development Stage on October 1, 2008 through September 30, 2009
Statement of Operations Data:	
Revenue	$ —
Costs and expenses	(2,371,275)
Other Income (expenses)	(349,661
Net Loss	$ (2,720,936)
Shares Outstanding	12,132,332
Total Assets	$ 196,220
Stockholders' deficiency	$ (2,720,936)
Loss per share (basic and fully diluted)	$ (0.22)

RESULTS OF OPERATIONS OF THE COMPANY

Revenue

We have historically derived our revenue from three sources:

Product sales, which formerly consisted of merchandise sales made either directly to original equipment manufacturers or sell through point of sale (“POS”) by distributors. All remaining merchandise was sold in January 2008. All such shipments were fulfilled from our contracted warehouse in Hong Kong or from our Norwood, Massachusetts office and were reported net of returns.

Royalties received as a result of an agreement between Apogee and SigmaTel, Inc. whereby SigmaTel, Inc. agreed to pay Apogee a percentage of the royalties it received from STMicroelectronics NV (“ST”) in exchange for supporting their royalty negotiations with ST, as well as revenue from the sale of the remaining DDX inventory.

Consulting income related to contractual services or development activities for third parties.

We anticipate that future revenue streams, if any, will come from our Life Science Group, generally in the form of strategic alliances or arrangements with development or marketing partners, as well as, from licensing and development-related revenues resulting from the grant of rights to our intellectual property. We envision the future of our medical devices as (i) licensing or selling our technologies to pharmaceutical or medical device companies; (ii) establishing partnerships with pharmaceutical and medical device companies to commercialize our products; and (iii) developing, producing and marketing our own products. In order to develop and market any products, we will need to secure additional funding.

No revenue was recognized for the three and nine months ended September 30, 2009. We recognized revenue for the three and nine months ended September 30, 2008 of approximately $38,000 and $85,000, respectively. On January 15, 2008, we sold the remaining DDX inventory held in our Norwood office to one of our customers, and on January 24, 2008, we sold the remaining DDX inventory housed in Hong Kong to one of our former DDX distributors. Total proceeds received from the disposition of the DDX inventory were $17,000.

We anticipate that we will not generate any material future revenue until such time, if ever, that we are able to generate revenue from our PyraDerm™ technology.

In April 2008, SigmaTel, Inc. agreed to pay Apogee a percentage of the royalties it received from STMicroelectronics NV ("ST") in exchange for supporting their royalty negotiations with ST. As a result of this agreement, Apogee received approximately $37,900 and $63,500 for the three and nine months ended September 30, 2008, respectively.

Cost of Revenue

Since substantially all of the revenue recorded was from products related to our former audio IC business, it had previously been fully reserved at 100%.. All of the revenue recorded for the three months ended September 30, 2008 was for royalties received as a result of the above-referenced arrangement with SigmaTel. Therefore, we did not record any cost of revenue for the three months ended September 30, 2008. For the nine months ended September 30, 2008, we recorded cost of revenue associated with the sale of sensor products of $696.

Operating Expenses

Research and Development Costs

Our research and development, or R&D, expenses consist primarily of salaries, development material costs, and external consulting and service costs related to the development and design of new products. Research and development expenses decreased by approximately $154,000, or 51%, to approximately $146,000 for the three months ended September 30, 2009, compared to approximately $300,000 for the three months ended September 30, 2008. During the nine months ended September 30, 2009, R&D expenses decreased by approximately $500,000, or 46%, to approximately $579,000, compared to approximately $1.079 million for the nine months ended September 30, 2008.

The decrease in the three and nine month comparisons was the result of a reduction in expenses for our Life Science Group as well as the discontinuation of activities related to both our sensor products and our Health Monitoring Group. During the three months ended September 30, 2009, the cost of utilization of third-party consultants decreased by approximately $40,000, or 91%, to approximately $4,000, compared to approximately $44,000 for the three months ended September 30, 2008. During the nine months ended September 30, 2009, the cost of utilization of third-party consultants decreased by $151,000, or 92%, to approximately $14,000, compared to approximately $165,000 for the nine months ended September 30, 2008. This decrease was the result of our discontinuing activities on both sensor products and our Health Monitoring Group as well as decreased utilization of third-party consultants related to our Life Science Group.

For the three and nine months ended September 30, 2009, human resource costs decreased by approximately $114,000, or 50%, and $259,000, or 36%, to approximately $113,000 and $463,000, respectively, compared to approximately $227,000 and $722,000 for the same periods in 2008. For the three and nine months ended September 30, 2009, approximately $5,000 and $16,000, respectively, compared to approximately $12,000 and $43,000 for the same periods in 2008, in human resource expense. Effective as of June 9, 2008, human resource expense was reduced by 20% for most R&D employees as a result of transitioning from full time to part time in order to reduce expenses. In addition to the transition to part-time status of some of our employees, we discontinued operations of our Health Monitoring Group effective as of March 31, 2009, thereby reducing our overall headcount by three employees. Expenses related to the Health Monitoring Group are insignificant.

For the nine months ended September 30, 2009, we recorded a patent impairment charge of approximately $17,000 to reflect the write-off of patent costs associated with the discontinuation of our Health Monitoring Group.

Depreciation and amortization expense increased by approximately $5,000, or 29%, to approximately $25,000 for the three months ended September 30, 2009, compared to approximately $20,000 for the three months ended September 30, 2008. This increase was the result of our amortizing approximately $10,000 of patent related costs for the three months ended September 30, 2009. For the nine months ended September 30, 2009, depreciation and amortization expense decrease by approximately $39,000, or 34%, to approximately $76,000, compared to approximately $115,000 for the nine months ended September 30, 2008. This decrease was partially offset by the amortization of approximately $29,000 of patent related expenses for the nine months ended September 30, 2009. We had been capitalizing license fees paid to third parties for costs associated with the exclusive rights to their patents. We were amortizing these fees over a period of four years. During the quarter ended June 30, 2008, we elected to terminate our 2006 license agreement with the University of Akron Research Foundation, as we had developed technology in-house and licensed a more compatible technology. As a result, we expensed the remaining $22,000 of unamortized license fees under this license agreement. In addition, during the quarter ended June 30, 2008, we expensed an additional $30,000, which represented the minimum royalty due under this terminated license agreement.

While we continue to conduct in-house experimentation and testing, purchases of supplies and consumables for the medical laboratory were reduced by approximately $3,500, or 82%, and $40,000, or 95%, to approximately $800 and $2,300 for the three and nine months ended September 30, 2009, compared to approximately $4,300 and $42,300 for the three and nine months ended September 30, 2008.

For the three and nine months ended September 30, 2009, travel and entertainment expenses decreased by approximately $1,500, or 61% and $24,800, or 99%, to approximately $1,000 and $200 for the three and nine months ended September 30, 2009, respectively, compared to approximately $2,500 and $25,000 for the same periods in 2008.

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

Selling, General and Administrative Costs

General and Administrative costs consist primarily of executive and administrative salaries, professional fees and other associated corporate expenses. Selling, General and Administrative, or SG&A, expenses were approximately $270,000 and $874,000 for the three and nine months ended September 30, 2009, respectively, compared to approximately $454,000 and $1.943 million, for the same periods in 2008. The decrease of approximately $184,000, or 41%, and $1.068 million, or 55%, respectively, was primarily attributed to a reduction in professional fees, human resources costs, and an overall reduction in operating expenses. Legal fees were reduced with the settlement of the SEC investigation. We are, however, continuing to incur legal expenses in connection with the indemnification of our President, Chief Executive Officer and Chairman of the Board of Directors (as described below).

Human resources costs increased by approximately $9,700, or 7% for the three months ended September 30, 2009 to approximately $151,400, compared to approximately $141,700 for the three months ended September 30, 2008. This increase was the result of an increase in the stock-compensation expense. For the nine months ended September 30, 2009 human resource costs decreased by approximately $73,000, or 14%, to approximately $465,000, compared to approximately $538,000 for the nine months ended September 30, 2008. This decrease in the nine months ended September 30, 2009 was the result of a 20% reduction in SG&A employee salaries effective as of June 9, 2008, partially offset by an increase in stock-based compensation expenses. For the three and nine months ended September

30, 2009, stock compensation expense increased by approximately $12,400 and $44,600, respectively, to approximately $14,200 and $48,300 for the three and nine months ended September 30, 2009, compared to approximately $1,800 and $3,700 for the three and nine months ended September 30, 2008.

Professional expenses decreased by approximately $191,000, or 78%, and $928,000, or 80%, respectively, to approximately $53,000 and $239,000 for the three and nine months ended September 30, 2009, respectively, compared to approximately $244,000 and $1.167 million for the same periods in 2008. For the three and nine months ended September 30, 2009, legal expenses decreased by $185,000, or 92%, and $874,000, or 87%, to approximately $16,000 and $126,000, respectively, compared to approximately $201,000 and $1 million for the three and nine months ended September 30, 2008. Legal fees decreased primarily as a result of the settlement of the SEC investigation as well as a decrease in legal fees associated with the continued indemnification of our President, Chief Executive Officer and Chairman of the Board of Directors in connection with the Shamy matter.

An investigation by the SEC since settled on May 19, 2009, which the Company first became aware of in May 2005, was ongoing through early 2009. The subject matter of this investigation was the Company's prior revenue recognition practices that were addressed in the Company's restatement of its financial statements for the fiscal year ended December 31, 2004. As previously disclosed in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, as amended, Apogee's Audit Committee, with the assistance of independent counsel, conducted an investigation into Apogee's historical accounting practices that resulted in the implementation of remedial actions. See our Annual Report on Form 10-KSB for the year ended December 31, 2004, as amended, for detail regarding the restatement. In July 2008, Apogee, it's Chief Executive Officer and other employees received notifications from the Staff of the SEC relating to the Staff's 2005 investigation. These notifications, known as "Wells Notices," stated that the Staff considered recommending that the Commission bring enforcement actions against the Company and certain employees, based on alleged violations of certain provisions of the federal securities laws, including Section 17(a) of the Securities Act of 1933, as amended, Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder, Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1 and 13a-13 thereunder. The Wells Notice sent to the Company indicated that in any action actually brought against the Company, the Staff would seek an injunction against future violations of the federal securities laws as relief.

On May 19, 2009, the Securities and Exchange Commission ("commission") settled this enforcement action. See Note 13 to the consolidated financial statements – Subsequent Events – Notification from the Securities and Exchange Commission. In light of the settlement we do not anticipate any additional significant legal fees associated with this matter.

We have agreed to indemnify certain employees, directors and a former employee in connection with the SEC investigation. As of September 30, 2009, we have incurred approximately $554,000 to date in legal expenses to indemnify these individuals in association with this matter. We did not incur any legal expenses associated with this indemnification for the three months ended September 30, 2009, compared to approximately $118,000 for the three months ended September 30, 2008. During the nine months ended September 30, 2009, we incurred expenses associated with this indemnification of approximately $1,600, compared to approximately $533,000 for the nine months ended September 30, 2008.

In addition, we incurred legal fees associated with the indemnification costs in connection with the civil action styled Joseph Shamy vs. Herbert M. Stein Case No.: 50 2005 CA 007719 XXXXMB. In this action instituted in the 15th Judicial Circuit in and for Palm Beach County, Florida (the "Court), Joseph Shamy sued Herbert M. Stein, President, Chief Executive Officer and Chairman of the Board of Apogee in connection with Shamy's purchase of Apogee shares in 2003 and 2004. In February 2009, in connection with a settlement, the Court entered a Final Judgment against Mr. Stein. In early January 2010, a filing was made with the Court to memorialize the Total and Complete Satisfaction of Judgment, which states that all sums due under the civil action were fully paid and that the Final Judgment was satisfied and canceled. Further, the Clerk of the Court was directed to note satisfaction of the Final Judgment and cancellation of all judgments of record in this action. Apogee was not a party to the aforementioned settlement or the satisfaction of the Final Judgment. Through January 1, 2010, we have incurred approximately $887,000 toward this indemnification. For the three and nine months ended September 30, 2009, we have incurred approximately $10,000 and $82,000, respectively, toward this indemnification, compared to approximately $14,000 and $89,000 for the same periods in 2008. See Note 10 to the consolidated financial statements - Legal and Related Indemnification Arrangements with our Executives.

On October 28, 2009, the Company received a "Wells Notice" from the staff of the Commission related to Apogee's failure to timely file its reports under the Exchange Act in 2009 – See Note 13 – Subsequent Events – SEC Administrative Proceeding.

We were not receiving reimbursement under our Director and Officer insurance policy for either the indemnification of Mr. Stein or the ongoing investigation by the SEC. As of March 31, 2009, Apogee's Directors and Officers Liability Insurance was cancelled due to non-payment.

Investor relations expense decreased by approximately $3,400, or 43%, and $50,400, or 79%, to approximately $4,500 and $13,500, respectively, for the three and nine months ended September 30, 2009, compared to approximately $7,900 and $63,900, respectively, for the three and nine months ended September 30, 2008. As part of our cost reduction, we have been forced to limit our investor relations activities. If additional funding is secured, we will be in a position to resume focusing on increasing awareness of our scientific and corporate developments.

Travel and Entertainment costs decreased by approximately $400, or 85%, and $30,200, or 98%, for the three and nine months ended September 30, 2009. For the three months ended September 30, 2009, we did not incur any travel related expenses, compared to approximately $400 for the three months ended September 30, 2008. For the nine months ended September 30, 2009 we incurred approximately $600 in travel related expenses, compared to approximately $30,800 for the nine months ended September 30, 2008. Corporate insurance decreased by approximately $14,300, or 78%, and $23,900, or 46%, to approximately $4,200 and $28,700, respectively for the three and nine months ended September 30, 2009, compared to approximately $18,500 and $52,600 for the same periods in 2008. This decrease was the result of the Directors and Officers Liability Insurance being cancelled effective as of March 31, 2009 due to non-payment. In addition, we had reductions to various other overhead expenses, including: communication, marketing and maintenance. Operating expenses are expected to increase when our financial position allows.

Interest Income (Expense)

Interest income includes income from Apogee's cash and cash equivalents and from investments and expenses related to its financing activities. During the three and nine months ended September 30, 2009, we did not generate interest income. During the three and nine months ended September 30, 2008, we generated interest income of approximately $58 and $842, respectively. This decrease in interest income was due to reduced cash balances.

Interest expense resulting from the issuance of promissory notes to Mr. Herbert M. Stein, Mr. David Spiegel, Mr. Robert Schacter et al and others was approximately $97,000 and $280,000 for the three and nine months ended September 30, 2009, compared to approximately $56,000 and $103,000 for the three and nine months ended September 30, 2008, respectively. See below for a detail of these expenses.

	Interest Incurred			
	3 Months ended September 30,		9 Months ended September 30,	
Name on Promissory Note	2009	2008	2009	2008
David Spiegel	$37,489	$26,995	$101,483	$48,879
Herbert Stein	29,857	26,134	83,936	51,189
Robert Schacter et al	23,765	1,860	80,160	1,860
Others	5,420	624	13,994	624
	$96,531	$55,613	$279,573	$102,552

Net Loss

Apogee's net loss for the three months ended September 30, 2009 was approximately $512,000, or $0.04 per basic and diluted common share, compared to a net loss of approximately $771,000, or $0.06 per basic and diluted common share, for the three months ended September 30, 2008. For the nine months ended September 30, 2009, we reported a loss of approximately $1.7 million, or $0.14 per basic and diluted common share, compared to a net loss of approximately $3.0 million, or $0.25 per basic and diluted common share, for the nine months ended September 30, 2008. This decrease in our net loss was the result of a decrease in legal fees and a reduction in human resource expenses as well as an overall decrease in operating expenditures due to our current cash restraints.

LIQUIDITY AND CAPITAL RESOURCES

The tables below summarize our outstanding unsecured interest-bearing promissory notes and common stock purchases (including amounts subsequent to September 30,2009) totaling approximately $3.8 million:

Herbert M. Stein

Date of Promissory Note	Amount	Maturity Date	Initial Interest Rate	Current Interest Rate
	$ 250,000		8.00%	12.00%

December 11, 2007		March 10, 2008		
February 21, 2008	100,000	August 19, 2008	8.00%	12.00%
March 20, 2008	50,000	September 16, 2008	8.00%	12.00%
April 1, 2008	50,000	September 28, 2008	8.00%	12.00%
May 15, 2008	50,000	November 11, 2008	8.00%	12.00%
June 16, 2008	35,000	December 13, 2008	8.00%	12.00%
June 18, 2008	40,000	December 15, 2008	8.00%	12.00%
July 15, 2008	30,000	January 11, 2009	8.00%	12.00%
July 28, 2008	50,000	January 24, 2009	8.00%	12.00%
August 12, 2008	35,000	February 8, 2009	8.00%	12.00%
August 27, 2008	35,000	February 23, 3009	8.00%	12.00%
September 5, 2008	35,000	March 4, 2009	8.00%	12.00%
October 27, 2008	25,000	April 25, 2009	8.00%	12.00%
February 2, 2009	30,000	August 1, 2009	8.00%	12.00%
February 17, 2009	10,000	August 16 2009	8.00%	12.00%
March 19, 2009	25,900	September 15, 2009	8.00%	12.00%
April 13, 2009	33,000	October 10, 2009	8.00%	12.00%
May 18, 2009	12,000	November 14, 2009	8.00%	12.00%
July 1, 2009	20,000	December 28, 2009	8.00%	12.00%
November 5, 2009	42,500	May 4, 2010	8.00%	12.00%
December 21, 2009	83,500	June 19, 2010	8.00%	12.00%
December 30, 2009	27,000	January 25, 2010	8.00%	12.00%
January 7, 2010	15,000	January 25, 2010	8.00%	12.00%
January 8, 2010	10,000	January 25, 2010	8.00%	12.00%
January 14, 2010	27,000	January 25, 2010	8.00%	12.00%
	66,000		8.00%	8.00%

February 12, 2010			August 21, 2010		
April 16, 2010		86,500	October 13, 2010	8.00%	8.00%
June 4, 2010		116,000	December 1, 2010	8.00%	8.00%
August 11, 2010		45,700	February 7, 2011	8.00%	8.00%
	$	1,435,100			

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David Spiegel

Date of Promissory Note	Amount	Maturity Date	Initial Interest Rate	Current Interest Rate
December 11, 2007	$ 150,000	March 10, 2008	8.00%	12.00%
February 21, 2008	100,000	August 19, 2008	8.00%	12.00%
March 20, 2008	100,000	September 16, 2008	8.00%	12.00%
April 1, 2008	50,000	September 28, 2008	8.00%	12.00%
May 15, 2008	50,000	November 11, 2008	8.00%	12.00%
June 16, 2008	65,000	December 13, 2008	8.00%	12.00%
June 18, 2008	50,000	December 15, 2008	8.00%	12.00%
July 15, 2008	50,000	January 11, 2009	8.00%	12.00%
July 28, 2008	50,000	January 24, 2009	8.00%	12.00%
August 12, 2008	35,000	February 8, 2009	8.00%	12.00%
August 27, 2008	35,000	February 23, 3009	8.00%	12.00%
September 5, 2008	35,000	March 4, 2009	8.00%	12.00%
October 27, 2008	35,000	April 25, 2009	8.00%	12.00%
January 6, 2009	80,000	July 5, 2009	8.00%	12.00%
March 19, 2009	64,000	September 15, 2009	8.00%	12.00%
May 19, 2009	35,000	November 15, 2009	8.00%	12.00%
June 10, 2009	25,000	December 7, 2009	8.00%	12.00%
July 1, 2009	32,000	December 28, 2009	8.00%	12.00%
November 5, 2009	103,000	May 4, 2010	8.00%	12.00%
December 21, 2009	68,000	June 19, 2010	8.00%	12.00%
January 25, 2010	4,665	July 24, 2010	8.00%	12.00%
April 16, 2010	16,000	October 13, 2010	8.00%	8.00%
June 4, 2010	14,000		8.00%	8.00%

		December 1, 2010		
August 11, 2010	100,000	February 7, 2011	8.00%	8.00%
	$ 1,346,665			

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Robert Schacter et al

Date of Promissory Notes	Name on Promissory Note		Amount	Maturity Date	Initial Interest Rate	Current Interest Rate
September 5, 2008	TYJO Corporation Money Purchase Pension Plan	$	100,000	March 4, 2009	8.00%	12.00%
September 5 2008	Mr. Robert Schacter, as Custodian for Tyler Schacter UTMA/CA		20,000	March 4, 2009	8.00%	12.00%
September 5 2008	Mr. Robert Schacter, as Custodian for Joseph Schacter UTMA/CA		20,000	March 4, 2009	8.00%	12.00%
October 27, 2008	TYJO Corporation Money Purchase Pension Plan		100,000	April 25, 2009	8.00%	12.00%
January 8, 2009	TYJO Corporation Money Purchase Pension Plan		100,000	July 7, 2009	8.00%	12.00%
February 2, 2009	TYJO Corporation Money Purchase Pension Plan		50,000	August 1, 2009	8.00%	12.00%
February 17, 2009	TYJO Corporation Money Purchase Pension Plan		50,000	August 16 ,2009	8.00%	12.00%
March 19, 2009	TYJO Corporation Money Purchase Pension Plan		50,000	September 15, 2009	8.00%	12.00%
April 13, 2009	TYJO Corporation Money Purchase Pension Plan		20,000	October 10, 2009	8.00%	12.00%
June 10, 2009	TYJO Corporation Money Purchase Pension Plan		25,000	December 7, 2009	8.00%	12.00%
November 5, 2009	TYJO Corporation Money Purchase Pension Plan		50,000	May 10, 2010	8.00%	12.00%
May 24, 2010*	TYJO Corporation Money Purchase Pension Plan		50,000			
June 4, 2010*	TYJO Corporation Money Purchase Pension Plan		25,000			
July 9, 2010**	TYJO Corporation Money Purchase Pension Plan		25,000			
		$	685,000			

* Funds received were for purchase of Apogee Technology, Inc. common stock at a price of $1.00 per share.

** It has not yet been determined whether these funds are to be considered a loan or equity.

On June 4, 2010 $545,000 in Promissory Notes outstanding at December 31, 2009 in the name of Robert Schacter (TYJO Corp. Money Purchase Pension Plan), and $20,000 each issued in the names of Mr. Robert Schacter, as Custodian for Tyler Schacter UTMA/CA and Mr. Robert Schacter, as Custodian for Joseph Schacter UTMA/CA were converted into 585,000 shares of Apogee Common Stock at $1.00 per share. See Note 13 – Subsequent Events – Promissory Notes Conversion.

Others

Date of Promissory Note		Amount	Maturity Date	Initial Interest Rate	Current Interest Rate
July 28, 2008	$	20,000	January 24, 2009	8.00%	12.00%
October 27, 2008		6,000	April 25, 2009	8.00%	12.00%
January 6, 2009		500	July 6, 2009	8.00%	12.00%
February 3, 2009		35,000	August 16, 2009	8.00%	12.00%
February 17, 2009		2,000	August 16, 2009	8.00%	12.00%
March 19, 2009		500	September 15, 2009	8.00%	12.00%
April 13, 2009		500	October 10, 2009	8.00%	12.00%
April 13, 2009		31,000	October 10, 2009	8.00%	12.00%
April 13, 2009		30,000	October 10, 2009	12.00%	16.00%
May 18, 2009		32,000	November 14, 2009	8.00%	12.00%
May 19, 2009		500	November 15, 2009	8.00%	12.00%
November 5, 2009		70,000	May 4, 2010	8.00%	12.00%
December 21, 2009		2,563	June 19, 2010	8.00%	12.00%
January 25 2010		30,000	July 24, 2010	8.00%	12.00%
April 16, 2010		20,000	October 13, 2010	12.00%	12.00%
July 13, 2010*		20,000			
July 16, 2010*		25,000			
	$	325,563			

* Funds received were for purchase of Apogee Technology, Inc. common stock at a price of $1.00 per share.

As of September 30, 2009, we had an overdraft of approximately $2,300 and a working capital deficit of approximately $5.8 million. This compares to an overdraft of approximately $49,000 as of December 31, 2008 and a working capital deficit of approximately $4.2 million. During the three and nine months ended September 30, 2009, we received proceeds from loans and unsecured interest-bearing promissory notes totaling $135,000 and $871,900, respectively, compared to approximately $470,000 and $1.290 million for the same periods in 2008, detailed as follows:

Name on Promissory Note	Combined Loan Amounts 3 Months ended September 30, 2009	2008	9 Months ended September 30, 2009	2008
David Spiegel	$67,000	$155,000	$223,000	$620,000
Herbert Stein	33,000	155,000	163,900	510,000
Robert Schacter et al	25,000	140,000	345,000	140,000
Leo Spiegel	10,000	—	45,000	—
Others	—	20,000	95,000	20,000
	$135,000	$470,000	$871,900	$1,290,000

These promissory notes are payable upon demand and were not subject to any premium or penalty for prepayment. The loan interest rate is 8% per annum, payable monthly in arrears on the outstanding balance. An additional 4% interest is charged on any notes exceeding maturity. In addition, post maturity notes are compounded monthly.

On April 9, 2008, Apogee sold 164,000 shares of our common stock to accredited investors at a price of $1.00 per share. The aggregate net proceeds to Apogee, after fees and expenses, were $152,519, which we will use for general working capital and corporate purposes. The shares of Apogee's common stock were issued and sold in a private placement in reliance on an exemption from registration provided by Section 4(2) of Securities Act of 133, as amended, and Rule 506 of Regulation D promulgated thereunder. The shares of the common stock issued in this private placement have not been registered under the Securities Act of 1933 and may not be subsequently offered or sold by the investors in the United States absent registration or an applicable exemption from the registration requirements.

Net cash used in operating activities for the nine-month period ended September 30, 2009 decreased to approximately $815,000 compared to approximately $1.7 million in the nine-month period ended September 30, 2008. As of March 31, 2008, we sold the remaining DDX inventory for a total of $17,000 and offset the remaining reserves for slow moving, excess and obsolete inventory. As of September 30, 2009, our accounts payable and accrued expenses were approximately $3.0 million, of which a majority is composed of professional fees. We are currently in arrears with loan and interest payments, a majority of our vendors, payroll, payroll withholding and payroll taxes. On December 11, 15, 16, and 18, 2009, Apogee received an additional $133,000 from Herbert M. Stein, and David Spiegel. The proceeds from these loans were used to pay unpaid payroll and payroll taxes up through and including payroll for the period ended December 15, 2009. These amounts exclude payroll and payroll taxes for Mr. Herbert M. Stein, who has not drawn cash compensation from Apogee since June 30, 2009. See Note 13 to the consolidated financial statements – Subsequent Events - Wages, Payroll Withholding and Payroll Taxes.

Net cash used in investing activities for the nine months ended September 30, 2009 was approximately $10,200, compared to approximately $91,000 for the nine months ended September 30, 2008. We continued to support the existing patent applications related to our Life Science Group.

Net cash provided by financing activities was approximately $825,000 for the nine months ended September 30, 2009. This compares $1.4 million for the nine months ended September 30 2008. During the nine-month period ended September 30, 2009, we received the proceeds from unsecured interest bearing promissory notes totaling $871,900 comprised of $223,000 from David Spiegel, a major shareholder, $163,900 from Herbert M. Stein, President, Chief Executive Officer and Chairman of the Board of Directors, $345,000 from Mr. Robert Schacter, $45,000 from Leo Spiegel, $63,000 from the Spiegel Family Limited Partnership, $30,000 from JAZFund LLC and $2,000 from others. These loans are payable upon demand and are not subject to any premium or penalty for prepayment. The loan interest rate is 8% per annum, payable monthly in arrears on the outstanding balance. An additional 4% interest will be charged on any notes exceeding maturity. In addition, post maturity notes are compounded monthly. See Footnote 7 of the consolidated financials statements - Promissory Notes, Loans and Warrants. We are currently in default on substantially all of the promissory notes. We must raise additional capital to continue operations.

Apogee is in the process of attempting to secure sufficient financing, to pay its indebtedness and to continue operations. We have been working to obtain financing from outside investors for more than 24 months, but have not yet been successful. As of January 1, 2010 approximately $2.7 million in promissory notes are in default. In the interim, short-term debt financing provided primarily by two of Apogee's significant shareholders, including our President, Chief Executive Officer and Chairman of the Board of Directors as well as Mr. Robert Schacter, et al and others, is being utilized to keep product development moving forward. Due to the early stages of development of our products technology, we cannot estimate at this time the amounts of cash and length of time that will be required to bring our products under development to market. It is expected that such costs will be funded not only by external financing, but also through partnership activities. Additionally, cost cutting measures, including salary reduction for non-PyraDerm employees, discontinuation of sensor development, deferral of capital expenditures, and reduced general spending have been instituted until such time as financing is secured. We do not expect any significant changes in the number of employees until funding has been secured, if ever. If we are unable to generate or obtain financing, we will be required to further curtail our operations, including a reduction in the number of employees, or cease conducting business.

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

Revenue will 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. We had no product sales since the first quarter ended March 31, 2008. The following policies applied 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. 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 our ability to collect our accounts receivable, our liquidity or our future results of operations.

Inventory

Inventories are stated at the lower of cost on a first-in, first-out basis or market. This policy requires Apogee to make estimates regarding the market value of our inventory, including an assessment of excess or obsolete inventory. On January 15, 2008, we sold the remaining DDX inventory held in our Norwood office to one of our customers, and on January 24, 2008, we also sold the remaining DDX inventory housed in Hong Kong to one of our former DDX distributors. Total proceeds received from the disposition of the DDX inventory were $17,000.

Valuation and Impairment of Long-Lived Assets

Property, plant and equipment, patents and trademarks are amortized over their estimated useful lives. Useful lives are based on management's estimates over the period that such assets will generate revenue. In accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" long lived assets we hold and use are reviewed to determine whether any events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Future adverse changes in market conditions or poor operating results of underlying capital investments or certain 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. At March 31, 2009, we recorded a patent impairment charge of approximately $17,000 to reflect the write-off of patent costs associated with the discontinuation of our Health Monitoring Group. Additionally, we amortize the balance of our patent applications over five years, which resulted in a $29,200 charge for the nine months ended September 30, 2009.

Stock-Based Compensation

Apogee had a stock-based compensation plan, the 1997 Employee, Director and Consultant Stock Option Plan, also referred to as the 1997 Plan. The 1997 Plan expired as of May 14, 2007. At our Annual Meeting held on August 28, 2007, our stockholders approved the adoption of a new stock-based compensation plan, the 2007 Employee, Director and Consultant Stock Plan, also referred to as the 2007 Plan. Prior to fiscal 2006, we accounted for the stock-based compensation under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards, "Accounting for Stock-Based Compensation" (SFAS 123(R)).

Effective January 1, 2006, we adopted the modified-prospective-transition method. Under this transition method, stock compensation costs recognized beginning January 1, 2006 include (a) compensation cost for all stock-based compensation payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123(R), and (b) compensation cost for all stock-based payments granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Included in our net loss for the three and nine months ended September 30, 2009 were stock-based compensation charges of approximately $18,700 and $64,200, respectively. This compares to stock-based compensation charges of approximately $14,000 and $46,700 for the three and nine months ended September 30, 2008.

Legal Fees

We record legal costs (such as fees and expenses of outside legal counsel and other service providers) when incurred or when it is probable that a liability has been incurred on or before the balance sheet date and the amount can be reasonably estimated if invoices have not been received. Significantly lower legal fees were incurred during the three and nine months ended September 30, 2009, compared to the same periods in 2008 as a result of a decrease in legal fees in connection with the SEC investigation as well as decreased legal fees associated with the indemnification of our President, Chief Executive Officer and Chairman of the Board of Directors for the Shamy matter.

Contingencies

Apogee is involved in and/or indemnifies others in various legal proceedings. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. See Note 10 to the consolidated financial statements - Legal and Related Indemnification Arrangements with our Executives and Others

Off-Balance Sheet Arrangements

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

ITEM 3 – QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Apogee's financial instruments include: cash, cash equivalents, accounts receivable and accounts payable. At September 30, 2009, the carrying value of our cash, cash equivalents, accounts receivable, loans and notes payable, and accounts payable approximate fair values given the short maturity of these instruments.

We believe that our financial instruments do not carry a 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.

It is our policy not to enter into derivative financial instruments for speculative purposes.

ITEM 4T – CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of the design and operation of Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the disclosure controls and procedures were effective to ensure that the information required to be disclosed in our Securities and Exchange Commission reports (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

(b) Changes in Internal Controls. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of such internal control that occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

From time to time, we may be a party to various legal proceedings arising in the ordinary course of our business. If and when these proceedings arise, we are committed to vigorously defending ourselves in any such legal actions.

An investigation by the Security and Exchange Commission ("SEC"), which the Company first became aware of in May 2005, was ongoing in 2008. The subject matter of this investigation is the Company's prior revenue recognition practices that were addressed in the Company's restatement of its financial statements for the fiscal year ended December 31, 2004. As previously disclosed in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, as amended, Apogee's Audit Committee, with the assistance of independent counsel, conducted an investigation into Apogee's historical accounting practices that resulted in the implementation of remedial actions. See our Annual Report on Form 10-KSB for the year ended December 31, 2004, as amended, for detail regarding the restatement.

In July 2008, Apogee, it's Chief Executive Officer and other employees received notifications from the Staff of the SEC relating to the Staff's 2005 investigation. These notifications, known as "Wells Notices," stated that the Staff is considering recommending that the Commission bring enforcement actions against the Company and certain employees, based on alleged violations of certain provisions of the federal securities laws, including Section 17(a) of the Securities Act of 1933, as amended, Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder, Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1 and 13a-13 thereunder. The Wells Notice sent to the Company indicated that in any action actually brought against the Company, the Staff would seek an injunction against future violations of the federal securities laws as relief.

On May 19, 2009, the SEC settled the enforcement action with the Company, one employee, and one former employee ("Others"). Each of the Defendants has agreed to settle this matter, without admitting or denying the allegations of the SEC's complaint. Apogee and Others agreed to the entry of a final judgment permanently enjoining them from violating or aiding and abetting violations of Sections of the Securities Act of 1933, as amended, and Sections of the Securities Exchange Act of 1934, as amended, and various Rules thereunder. Others also agreed to financial and other sanctions.

In addition, we incurred legal fees associated with the indemnification costs in connection with the civil action styled Joseph Shamy vs. Herbert M. Stein Case No.: 50 2005 CA 007719 XXXXMB. In this action instituted in the 15th Judicial Circuit in and for Palm Beach County, Florida (the "Court), Joseph Shamy sued Herbert M. Stein, President, Chief Executive Officer and Chairman of the Board of Apogee in connection with Shamy's purchase of Apogee shares in 2003 and 2004. In February 2009, in connection with a settlement, the Court entered a Final Judgment against Mr. Stein. In early January 2010, a filing was made with the Court to memorialize the Total and Complete Satisfaction of Judgment, which states that all sums due under the civil action were fully paid and that the Final Judgment was satisfied and canceled. Further, the Clerk of the Court was directed to note satisfaction of the Final Judgment and cancellation of all judgments of record in this action. Apogee was not a party to the aforementioned settlement or the satisfaction of the Final Judgment. See Note 9 to the consolidated financial statements beginning on page F-1 of this Annual Report on Form 10K.

Due to its financial condition, the Company had been unable to fund payments to its independent auditors as well as its financial printer. Accordingly, it did not timely file its 2008 Annual Report on Form 10-K, as well as quarterly reports on Form 10-Q for the quarters ended March 31, 2009, June 30, 2009, and September 30, 2009. Additionally, we did not file timely Current Reports on a Form 8-K and reports under Section 16 of the Securities Exchange Act of 1934, as amended. Subsequently, during the fourth quarter of 2009, we paid the outstanding balance to our auditors and filed our Annual Report on 10-K for the fiscal year ended December 31, 2008 on December 18, 2009.

On October 28, 2009, the Company received a "Wells Notice" from the Staff of the SEC, which stated the Staff's intent to recommend that the SEC institute a public administrative proceeding against the Company, alleging that it violated Section 13(a) of the Securities Exchange Act of 1934, as amended for failing to file its 2008 Form 10-K and other periodic reports.

In connection with the contemplated proceedings, the Staff may seek a suspension or revocation of each class of the Company's registered securities. Also, the Staff may consider whether contempt proceedings in a federal district court are appropriate. The Company submitted a response to this letter on November 16, 2009. Should suspension or revocation of registration of our stock occur, the Company's ability to raise additional funding may be severely impacted. On December 18, 2009 we filed our 2008 Annual Report on Form 10-K and our 2009 Quarterly Reports on Form 10-Q for the periods ended March 31, 2009, June 30, 2009 and September 30, 2009 in January 2010.

As noted above, the Company, on December 18, 2009, filed its delinquent financial report on Form 10-K for the year ended December 31, 2008. This report contained a Disclaimer of Opinion by its Independent Accountants due to significant uncertainty as to the Company's ability to be a going concern. On April 16, 2010 the SEC issued an Order for an Administrative Hearing based on a claim that the filing as well as Form 10-Q's for the first three quarters of 2009, which had been filed on January 15, 2010, were materially deficient due to the Disclaimer of Opinion and thus the filings remained delinquent. The Disclaimer of Opinion was removed on a subsequent filing. The Company was also delinquent on its Form 10-K for the Year ended December 31, 2009. An Order of Suspension of trading in the Company's securities was enacted at that time. The Company also did not file its Form 10-Q for the quarter ended March 31, 2010.

The SEC and the Company subsequently entered into a Settlement agreement without the above mentioned Hearing, under which the Company would file all its delinquent filings with out a material deficiency by a mutually agreed date. Failure to do so would activate an Order to revoke the ability for the Company's securities to trade on an exchange.

ITEM 1A – RISK FACTORS

There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.
Aside from those risks discussed below, there have been no material changes to the risk factors included in our Annual Report on Form-10K for the fiscal year ended December 31, 2008.

RISKS RELATED TO OUR BUSINESS

WE REQUIRE ADDITONAL CAPITAL TO CONTINUE OPERATIONS AND HAVE A HISTORY OF LOSSES AND EXPECT FUTURE LOSSES.

As of September 30, 2009, we had no cash, a stockholders' deficiency of approximately $5.6 million, an accumulated deficit of approximately $24.6 million and a working capital deficit of approximately $5.8 million. We had a net loss of approximately $512,000 and $1.7 million for the three and nine months ended September 30, 2009, respectively, compared to a net loss of approximately $771,000 and $3.0 million for the same periods in 2008. In the fiscal year ended December 31, 2008, we recorded a net loss of approximately $4.0 million.

We have substantial debt and interest obligations and expect to incur additional debt to the extent available, to maintain our operations. As of January 15, 2010, we had approximately $3.2 million in promissory notes outstanding to a significant shareholder, our President, Chief Executive Officer and Chairman of the Board of Directors, an individual investor and others. These promissory notes are payable upon demand, not subject to any premium or penalty for prepayment, bear simple interest of 8% per annum until maturity. An additional 4% interest compounded monthly is charged on all post-maturity notes. We are currently in default on substantially all of the promissory notes.

We have large unpaid balances with professional. We are currently in arrears with loan and interest payments and a majority of our vendors.

As of March 31, 2009, Apogee's Directors and Officers Liability Insurance was cancelled due to non-payment and the Company may be required to pay uninsured losses. See Note 10 - to the consolidated financial statements - Legal and Related Indemnification Arrangements with our Executives and Others.

On October 28, 2009, the Company received a "Wells Notice" from the staff of the Securities and Exchange Commission, which states the staff's intent to recommend that the Commission institute a public administrative proceeding against the Company, alleging that it violated Section 13(a) of the Securities Exchange Act of 1934 due to failure to timely file periodic reports in 2009. In connection with the contemplated proceedings, the staff may seek a suspension or revocation of each class of the Company's registered securities. Also, the staff may consider whether contempt proceedings in a federal district court are appropriate. The Company submitted a response to this letter on November 16, 2009. Should suspension or revocation of registration of our stock occur, the Company's ability to raise additional funding may be severely impacted.

Our requirements for additional capital and our ability to generate future revenue depend on a number of factors, many of which are described in the Risk Factors Section, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, 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 OUR ATTEMPTS TO SECURE ADDITIONAL FINANCING ARE NOT SUCCESSFUL, WE WILL BE REQUIRED TO CEASE OR CURTAIL OUR OPERATIONS, OR OBTAIN FUNDS ON UNFAVORABLE TERMS. THESE FACTORS CREATE A SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

Our available resources are not sufficient to fund our operations, without additional sources of financing we would not be able to continue our business, and we expect to incur operating losses for the foreseeable future. Consequently, in order to maintain our operations, which we have already curtailed substantially, we will need to access additional equity or debt capital. Securing financing is proving even more difficult than anticipated in light of the current global economic crisis and the turmoil impacting global financial markets. These factors create a substantial doubt about our ability to continue as a going concern. In light of our negative stockholders' equity, there can be no assurance that we will be able to obtain the necessary additional capital on a timely basis or on acceptable terms, if at all, to continue our operations and, to the extent available, to fund the development of our business. In any of such events, the continuation of our operations would be materially and adversely affected and we may have to cease conducting business.

As noted above, Apogee is in the process of attempting to secure sufficient financing to continue operations. We have been working to obtain financing from outside investors for more than 24 months, but have not yet been successful. In the interim, short-term debt financing provided by Apogee's significant shareholders, including our President, Chief Executive Officer and Chairman of the Board of Directors, and two other employees are being used to continue our operations and, to the extent possible, continue product development efforts. Additionally, cost cutting measures, including salary reduction for non-PyraDerm employees, diminished pace of sensor development, deferral of capital expenditures, non-payment of professional and other services providers and reduced general spending have been instituted until such time as financing is secured, if ever. If we are unable to obtain financing, we will be required to further curtail our operations or cease conducting business. Given our current level of debt, we do not expect that our stockholders would receive any proceeds if we declare bankruptcy or seek to liquidate the Company. As of March 31, 2009, we closed down operations of the Health Monitoring Product Group. Costs associated with this cessation of operations as well as the termination of employees associated with this Group were not material.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- anticipated financing activities;
- anticipated strategic alliances or arrangements with development or marketing partners;
- anticipated research and product development results;
- projected development and commercialization timelines;
- descriptions of plans or objectives of management for future operations, products or services;
- forecasts of future economic performance; and
- descriptions or assumptions underlying or relating to any of the above items.

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

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, we do not assume responsibility for the accuracy and completeness of such statements. We do not intend to update any of the forward-looking statements after the date of this report to conform such statements to actual results except as required by law. Given these uncertainties, you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. You should carefully consider that information before you make an investment decision. You should review carefully the risks and uncertainties identified in this report and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the period ended September 30, 2009, our unregistered sales of equity securities were reported on Current Reports on Form 8-K.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

As of September 30, 2009, $2,353,900 was in default and accruing post-maturity interest. The promissory notes listed below now bear interest at 12%, the interest after maturity, are payable on demand, and are compounded monthly as a result of non-payment at maturity date.

David Spiegel

Date of Promissory Note	Maturity Date	Amount Accruing Post Maturity Interest Interest at 12%
December 12, 2007	March 10, 2008	$150,000
February 21, 2008	August 19, 2008	100,000
March 20, 2008	September 16, 2008	100,000
April 1, 2008	September 28, 2008	50,000
May 15, 2008	November 11, 2008	50,000
June 16, 2008	December 13, 2008	65,000
June 18, 2008	December 15, 2008	50,000
July 15, 2008	January 11, 2009	50,000
July 28, 2008	January 24, 2009	50,000
August 12, 2008	February 8, 2009	35,000
August 27, 2008	February 23, 2009	35,000
September 5, 2008	March 4, 2009	35,000
October 27,2008	April 25 ,2009	35,000
January 9, 2009	July 5, 2009	80,000
March 19, 2009	September 15, 2009	64,000
Total		$949,000

Herbert M. Stein

Date of Promissory Note	Maturity Date	Amount Accruing Post Maturity Interest Interest at 12%
December 12, 2007	March 10, 2008	$250,000
February 21, 2008	August 19, 2008	100,000
March 20, 2008	September 16, 2008	50,000
April 1, 2008	September 28, 2008	50,000
May 15, 2008	November 11, 2008	50,000
June 16, 2008	December 13, 2008	35,000
June 18, 2008	December 15, 2008	40,000
July 15, 2008	January 11, 2009	30,000
July 28, 2008	January 24, 2009	50,000

August 12, 2008	February 8, 2009	35,000
August 27, 2008	February 23, 2009	35,000
September 5, 2008	March 4, 2009	35,000
October 27, 2008	April 25, 2009	25,000
February 2, 2009	August 1, 2009	30,000
February 17, 2009	August 16, 2009	10,000
March 19, 2009	September 15, 2009	25,900
Total		$850,900

Robert Schacter et al

Date of Promissory Note	Maturity Date	Amount Accruing Post Maturity Interest Interest at 12%
September 5, 2008	March 4, 2009	$140,000
October 27, 2008	April 25, 2009	100,000
January 8, 2009	July 7, 2009	100,000
February 2, 2009	August 1, 2009	50,000
February 17, 2009	August 16, 2009	50,000
March 19, 2009	September 15, 2009	50,000
		$490,000

Others

Date of Promissory Note	Maturity Date	Amount Accruing Post Maturity Interest Interest at 12%
July 28, 2008	January 24, 2009	$20,000
October 27, 2008	April 25, 2009	6,000
January 6, 2009	July 5, 2009	500
February 17, 2009	August 16, 2009	37,000
March 19, 2009	September 15, 2009	500
		$64,000

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

Exhibit Number	Description
10.1+	Promissory Note dated as of July 1, 2009 and between Apogee Technology, Inc. and Herbert M. Stein. (Previously filed on a Current Report on Form 8-K, July 2, 2009.)
10.2+	

	Promissory Note dated as of July 1, 2009 by and between Apogee Technology, Inc. and David Spiegel. (Previously filed on a Current Report on Form 8-K, July 2, 2009.)
10.3+	Form of Warrant. (Previously filed on a Current Report on Form 8-K, July 2, 2009.)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer and Chief Financial Officer.

+ Previously filed as indicated.

SIGNATURES

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

	APOGEE TECHNOLOGY, INC.
Date: August 18, 2010	By: /s/ Herbert M. Stein Name: Herbert M. Stein Title: Chairman of the Board, President, Chief Executive Officer (principal executive officer)
	APOGEE TECHNOLOGY, INC.
Date: August 18, 2010	By: /s/ Paul J. Murphy Name: Paul J. Murphy Title: Chief Financial Officer and Vice President of Finance (principal financial officer and principal accounting officer)

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