FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2005

OR

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

For the transition period from to

Commission File number 000-30654

APROPOS TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Illinois	**36-3644751**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Tower Lane, 28th Floor
Oakbrook Terrace, Illinois 60181
(Address of principal executive offices, including zip code)

(630) 472-9600
(Registrant' s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The number of shares outstanding of the registrant' s Common Shares, par value $0.01 per share, as of July 26, 2005, was 17,956,937.

APROPOS TECHNOLOGY, INC.
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Part I. Financial Information.

Item 1. Financial Statements.

Apropos Technology, Inc.
Condensed Consolidated Balance Sheets
In thousands, except share and per share amounts

	June 30 2005 (Unaudited)	December 31 2004 (Note 1)
Assets		
Current assets :		
Cash and cash equivalents	$ 24,045	$ 12,291
Short-term investments	17,027	28,867
Accounts receivable, less allowances for doubtful accounts of $266 at June 30, 2005 and $219 at December 31, 2004	2,637	3,155
Inventory	43	34
Prepaid expenses and other current assets	407	355
Total current assets	44,159	44,702
Equipment, net	533	565
Other assets	28	21
Total assets	$ 44,720	$ 45,288
Liabilities and shareholders' equity		
Current liabilities :		
Accounts payable	$ 444	$ 155
Accrued expenses	1,013	1,134
Accrued compensation and related accruals	527	821
Accrued restructuring, current portion	408	720
Advance payments from customers	282	35
Deferred revenues	3,592	3,403
Total current liabilities	6,266	6,268
Accrued restructuring, less current portion	–	245
Commitments and contingencies	–	–
Shareholders' equity :		
Preferred shares, $0.01 par value, 5,000,000 shares authorized, no shares issued and outstanding	–	–
Common shares, $0.01 par value, 60,000,000 shares authorized, 17,907,358 shares issued and outstanding at June 30, 2005; 17,638,400 issued and outstanding at December 31, 2004	179	176
Additional paid-in capital	103,571	103,155

Accumulated deficit	(65,296)	(64,556)
Total shareholders' equity	38,454	38,775
Total liabilities and shareholders' equity	$ 44,720	$ 45,288

See notes to condensed consolidated financial statements.

Apropos Technology, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

In thousands, except per share amounts

	Three months ended June 30		Six months ended June 30	
	2005	**2004**	**2005**	**2004**
Revenue				
Software licenses	$ 1,358	$ 1,638	$ 2,458	$ 3,625
Services and other	3,095	3,330	6,210	6,503
Total revenue	4,453	4,968	8,668	10,128
Cost of goods and services				
Cost of software	61	116	96	287
Cost of services and other	995	1,020	2,072	1,871
Total cost of goods and services	1,056	1,136	2,168	2,158
Gross margin	3,397	3,832	6,500	7,970
Operating expenses				
Sales and marketing	1,755	1,760	3,493	3,433
Research and development	1,160	1,032	2,256	2,084
General and administrative	1,176	946	2,183	2,043
Restructuring and other charges (credit)	(187)	88	(187)	456
Total operating expenses	3,904	3,826	7,745	8,016
Income (loss) from operations	(507)	6	(1,245)	(46)
Other income (expense)				
Interest income	287	107	527	203
Other, net	(9)	(4)	(22)	(33)
Total other income (expense)	278	103	505	170
Net income (loss)	$ (229)	$ 109	$ (740)	$ 124
Net income (loss) per share				
Basic	$ (0.01)	$ 0.01	$ (0.04)	$ 0.01
Diluted	$ (0.01)	$ 0.01	$ (0.04)	$ 0.01
Weighted average shares outstanding				

Basic	17,878	17,273	17,834	17,188
Diluted	17,878	18,614	17,834	18,575

See notes to condensed consolidated financial statements.

Apropos Technology, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

In thousands

	Six months ended June 30	
	2005	**2004**
Cash flows from operating activities		
Net income (loss)	$ (740)	$ 124
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities :		
Depreciation and amortization	187	250
Provision for doubtful accounts	91	–
Non-cash restructuring charge	(187)	420
Changes in operating assets and liabilities :		
Accounts receivable	426	471
Inventory	(9)	32
Prepaid expenses and other current assets	(52)	(74)
Other assets	(6)	6
Accounts payable	289	61
Accrued expenses	(122)	(219)
Accrued compensation and related accruals	(294)	154
Accrued restructuring	(369)	(269)
Advanced payments from customers	247	(87)
Deferred revenue	189	178
Net cash provided by (used in) operating activities	(350)	1,047
Cash flows from investing activities		
Maturities and sales of short-term investments	35,715	2,125
Purchases of short-term investments	(23,875)	(514)
Purchases of equipment	(155)	(96)
Net cash provided by investing activities	11,685	1,515
Cash flows from financing activities		
Proceeds from exercise of options	374	639
Proceeds from employee stock purchase plan	45	64
Net cash provided by financing activities	419	703
Net change in cash and cash equivalents	11,754	3,265
Cash and cash equivalents, beginning of period	12,291	9,971
Cash and cash equivalents, end of period	$ 24,045	$ 13,236

See notes to condensed consolidated financial statements.

Apropos Technology, Inc.
Notes To Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The consolidated financial statements include the accounts of Apropos Technology, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In management' s opinion, the statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented.

The balance sheet at December 31, 2004, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

These financial statements should be read in conjunction with the Company' s audited consolidated financial statements for the year ended December 31, 2004, included with its Annual Report on Form 10-K filed with the SEC on March 30, 2005. The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for any other interim period or for the full fiscal year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Recently Issued Accounting Standards

In December 2004, the FASB issued FAS No. 123(R), "Share-Based Payment" (FAS 123(R)). This statement requires that the compensation cost relating to share based payment transactions be recognized in the financial statements. Compensation cost is to be measured based on the estimated fair value of the equity-based compensation awards issued as of the grant date. The related compensation expense will be based on the estimated number of awards expected to vest and will be recognized over the requisite service period (often the vesting period) for each grant. The statement requires the use of assumptions and judgments about future events and some of the inputs to the valuation models will require considerable judgment by management. FAS No. 123(R) replaces FAS No. 123, "Accounting for Stock Based Compensation," and supersedes APB 25, "Accounting for Stock Issued to Employees." The provisions of FAS 123(R) are required to be applied by public companies as of the first interim or annual reporting period that begins after June 15, 2005.

On April 14, 2005, the SEC adopted a new rule amending the effective date for Statement 123(R). The amended rule allows registrants to implement Statement 123(R) as of the first annual period after June 15, 2005, which is January 1, 2006 for the Company.

Apropos intends to continue applying APB 25 to equity-based compensation awards until the effective date of FAS 123(R). At the effective date of FAS 123(R), Apropos expects to use the modified prospective application transition method without restatement of prior interim periods in the year of adoption. This will result in recognizing compensation cost based on the requirements of FAS 123(R) for all equity-based compensation awards issued after January 1, 2006. For all equity-based compensation awards that are unvested as of January 1, 2006, compensation cost will be recognized for the unamortized portion of compensation cost not previously included in the FAS No. 123 pro forma footnote disclosure. The impact on the Company' s results of operations or financial position as of the adoption of this pronouncement is not expected to be materially different from the pro-forma results included in Note 3 below.

2. Income or Loss Per Share

Basic net income or loss per share is based upon the net income or loss and upon the weighted-average number of common shares outstanding during the period. Diluted net income per common share adjusts for the effect of common share equivalents, such as stock options and stock warrants, net of assumed repurchases, only in the periods presented in which such effect would have been dilutive. Diluted net loss per share for the three and six months ended June 30, 2005 is not presented separately, as the effect of the common share equivalents is anti-dilutive for the respective period presented. Accordingly, diluted net loss per share is the same as basic net loss per share.

	Three months ended June 30		Six months ended June 30	
In thousands, except per share amounts	**2005**	**2004**	**2005**	**2004**
Basic Income (loss) per share				
Net income (loss)	$ (229)	$ 109	$ (740)	$ 124
Weighted average shares outstanding	17,878	17,273	17,834	17,188
Income (loss) per share	$ (0.01)	$ 0.01	$ (0.04)	$ 0.01
Diluted Income per share				
Net income		$ 109		$ 124
Shares:				
Weighted average shares outstanding		17,273		17,188
Assumed option exercises		1,326		1,372
Assumed warrant exercises		15		15
Weighted average shares outstanding, as adjusted		18,614		18,575
Diluted income per share		$ 0.01		$ 0.01

3. Stock Based Compensation

The Company has elected to determine the value of stock-based compensation arrangements under the provisions of Accounting Principles Board, or APB, Opinion No. 25 “Accounting for Stock Issued to Employees.” The pro forma disclosures required under Statement of Financial Accounting Standards, or SFAS, No. 148, “Accounting for Stock Based Compensation Transition and Disclosure- an Amendment of SFAS, No. 123” are included below. SFAS, No. 123, “Accounting for Stock Based Compensation” permits the use of either a fair value based method or the intrinsic value method to measure the expense associated with stock-based compensation arrangements.

In accordance with the interim disclosure provisions of SFAS No. 148, the pro forma effect on the Company’ s net income (loss) had compensation expense been recorded for the three and six months ended June 30, 2005 and 2004, respectively, as determined under the fair value method, is shown below.

	Three months ended June 30		Six months ended June 30	
In thousands, except per share amounts	**2005**	**2004**	**2005**	**2004**
Net income (loss), as reported	$ (229)	$ 109	$ (740)	$ 124
Add: Stock-based employee compensation expense included in reported net income (loss)	–	–	–	–

Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects		(158)		(215)		(339)		(433)
Net loss, pro forma	$	(387)	$	(106)	$	(1,079)	$	(309)
Basic net income (loss) per share, as reported	$	(0.01)	$	0.01	$	(0.04)	$	0.01
Basic net loss per share, pro forma	$	(0.02)	$	(0.01)	$	(0.06)	$	(0.02)
Diluted net income per share, as reported			$	0.01			$	0.01
Diluted net loss per share, pro forma			$	(0.01)			$	(0.02)

Options to purchase 1,960,265 Common Shares with exercise prices of $0.10 to $22.00 per share were outstanding as of June 30, 2005, and options to purchase 2,499,683 Common Shares with exercise prices of $0.10 to $22.00 per share were outstanding as of June 30, 2004.

4. Geographic Information

Revenues derived from customers outside of North America accounted for 21.4% and 17.1% of the Company' s total revenues in the three months ended June 30, 2005 and 2004, respectively. Revenues derived from customers outside of North America accounted for 27.9% and 18.1% of the Company' s total revenues in the six months ended June 30, 2005 and 2004, respectively.

The Company attributes its revenues to countries based on the country in which the client is located. The Company' s long-lived assets located outside the United States are not considered material.

5. Litigation and Contingencies

In November 2001, the Company was named as a defendant in shareholder class action litigation that has been filed in federal court in New York City against the Company and certain of its current and former officers and the underwriters of the Company' s IPO. This lawsuit alleges, among other things, that the underwriters of the Company' s IPO improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of the Company' s stock in the aftermarket as conditions of receiving shares in the Company' s IPO. The lawsuit further claims that these supposed practices of the underwriters should have been disclosed in the Company' s IPO prospectus and registration statement. In April 2002, an amended complaint was filed which, like the original complaint, alleges violations of the registration and antifraud provisions of the federal securities laws and seeks unspecified damages. The Company understands that various other plaintiffs have filed substantially similar class action cases against approximately 300 other publicly traded companies and their public offering underwriters in New York City, which along with the case against the Company have all been transferred to a single federal district judge for purposes of coordinated case management.

In July 2002, the Company, together with the other issuers named as defendants in these coordinated proceedings, filed a collective motion to dismiss the consolidated amended complaints against them on various legal grounds common to all or most of the issuer defendants. In October 2002, the Court approved a stipulation providing for the dismissal of the individual defendants without prejudice. In February 2003, the Court issued a decision granting in part and denying in part the motion to dismiss the litigation filed by the Company and the other issuer defendants. The claims against the Company under the antifraud provisions of the securities laws were dismissed with prejudice; the claims under the registration provisions of the securities laws were not dismissed as to the Company or virtually any other issuer defendant. The Court also denied the underwriter defendants' motion to dismiss in all respects.

In June 2003, the Company elected to participate in a proposed settlement agreement with the plaintiffs in this litigation. If ultimately approved by the Court, this proposed settlement would result in a dismissal, with prejudice, of all claims in the litigation against the Company and against any of the other issuer defendants who elect to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation as against those defendants is continuing. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of $1 billion by insurers of the participating issuer defendants. If recoveries totaling $1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, the Company and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of their IPO’ s.

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers’ directors and officers liability insurance policy proceeds as opposed to funds of

the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer’ s insurance coverage were insufficient to pay that issuer’ s allocable share of the settlement costs. The Company expects that its insurance proceeds will be sufficient for these purposes and that it will not otherwise be required to contribute to the proposed settlement.

Consummation of the proposed settlement is conditioned upon obtaining both preliminary and final approval by the Court. Formal settlement documents were submitted to the Court in June 2004, together with a motion asking the Court to preliminarily approve the form of settlement. Certain underwriters who were named as defendants in the settling cases, and who are not parties to the proposed settlement, opposed preliminary approval of the proposed settlement of those cases. On February 15, 2005, the Court issued an order preliminarily approving the proposed settlement in all respects but one. In response to this order, the plaintiffs and the issuer defendants are in the process of submitting revised settlement documents to the Court. The underwriter defendants may object to the revised settlement documents. If the Court approves the revised settlement documents, it will direct that notice of the terms of the proposed settlement be published in a newspaper and on the internet and, mailed to all proposed class members. It will also schedule a fairness hearing, at which objections to the proposed settlement will be heard. Thereafter, the Court will determine whether to grant final approval to the proposed settlement.

If the proposed settlement described above is not consummated, the Company intends to continue to defend the litigation vigorously. Moreover, if the proposed settlement is not consummated, the Company believes that the underwriters may have an obligation to indemnify it for the legal fees and other costs of defending this suit. While the Company cannot guarantee the outcome of the above proceedings, the Company believes that the final result of these actions will have no material effect on its consolidated financial condition, results of operations or cash flows.

The Company is a party in various other disputes and litigation that have arisen in the course of the Company’ s business. In the opinion of management, although legal proceedings can not be predicted with certainty, the ultimate outcome of these disputes and lawsuits are not expected to have a material impact on the Company’ s financial condition or results of operations, or cash flows.

6. Restructuring and other charges (credits)

In the second quarter of 2005, the company recorded a credit of $187,000. The credit relates to the successful sublet of vacated space at the corporate headquarters. In the second quarter of 2004, the Company recorded a charge of $88,000 related to the consolidation of the corporate headquarters. This adjustment to the existing reserve is due to the fact the Company was unable to find a tenant to sublet the excess facility space and thereby delayed the start of anticipated sublet income by six months. In the first quarter of 2004, the Company recorded a charge of $368,000. In late January 2004, the U.K. operations moved into new premises that are more suitable for their current staffing levels. The old facility, which had a lease through March 2005, was in use until the move. The U.K. lease termination charge of approximately $309,000, consisted of forfeiture of the rent deposit, abandonment of assets, and other direct disposal costs. Additionally, the Company recorded an adjustment of $59,000 for the reserve related to the consolidation of the corporate headquarters. This adjustment was due to the fact the Company has been unable to find a tenant to sublet the excess facility space and thereby delayed the start of anticipated sublet income by three months.

A summary of the restructuring and other charge, is as follows:

In thousands	Employee termination costs	Facility termination costs	Asset impairment charge	Other	Total
Balance as of December 31, 2003	$ 6	$ 981	$ –	$ 11	$ 998
2004 Provision	–	205	104	–	309
2004 Adjustments	–	147	–	–	147
2004 Cash Payments	–	(305)	–	–	(305)
2004 Non-cash charge offs	–	(169)	(104)	–	(273)
Balance as of June 30, 2004	$ 6	$ 859	$ –	$ 11	$ 876

In thousands	Employee termination costs	Facility termination costs	Asset impairment charge	Other	Total
Balance as of December 31, 2004	$ 181	$ 784	$ –	$ –	$ 965
2005 Provision (Credit)	–	$ (187)	–	–	$ (187)
2005 Adjustments	–	–	–	–	–
2005 Cash Payments	(120)	(250)	–	–	(370)
Balance as of June 30, 2005	$ 61	$ 347	$ –	$ –	$ 408

Included in Accrued restructuring at June 30, 2005 is approximately $61,000 related to the separation agreement with the Company’ s former Chief Executive Officer, which the Company estimates will be disbursed over the next quarter. The remaining $347,000, which is net of sublet income, relates to the facility termination costs, which the Company estimates will be disbursed over the remaining life of the lease through the second quarter of 2006.

Item 2. Management’ s Discussion and Analysis of Financial Condition and Results of Operations.

Except for historical information, the matters discussed in this Quarterly Report on Form 10-Q are forward-looking statements made pursuant to the safe harbor provisions for forward-looking statements described in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the Company’ s current expectations and are subject to a number of risks, uncertainties, and assumptions relating to the Company’ s operations, financial condition, and results of operations. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from results expressed or implied in any forward-looking statement made by the Company in this Quarterly Report. These and other risks are detailed under the caption “Risk Factors Associated with Apropos’ Business and Future Operating Results” in the Company’ s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission. The Company does not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances.

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

The following discussion should be read in conjunction with the Company' s condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report.

Overview

The Company develops, markets, and supports a leading real-time, multi-channel interaction management application for managing customer interactions across a variety of communications media, including E-mail, Fax, Web, and Voice. The Company' s solution enhances customer relationship management applications, such as sales, marketing, and service, through intelligent, value-based management of all interactions.

The Company' s operations commenced in January 1989, and, from inception to early 1995, operating activities consisted primarily of research and development and consulting. As an integral part of the Company' s growth strategy, during February 2000, the Company completed an initial public offering of 3,977,500 Common Shares (the "IPO") resulting in net proceeds to the Company of approximately $79.3 million.

Critical Accounting Policies

Revenue recognition. The Company recognizes revenue from the sale of software licenses upon delivery. The Company recognizes revenue from fees for professional services when they are completed. The Company recognizes support and maintenance services ratably over the term of its maintenance contracts, which are typically annual contracts. Training services are recognized as such services are completed.

The Company derives revenue principally from the sale of software licenses and from fees for implementation, technical support, and training services.

The Company markets its solution to its customers primarily through its direct sales force, value-added resellers, and original equipment manufacturers, or OEMs, in North America, Europe, South America, Asia, Africa, and Australia. Revenue generated via resellers and OEMs accounted for 20.5% and 19.5% of the Company' s total revenue for the three months ended June 30, 2005 and 2004, respectively. Revenue generated via resellers and OEMs accounted for 27.2%, and 28.4% of the Company' s total revenue for the six months ended June 30, 2005 and 2004, respectively. Management expects that revenue derived from sales to resellers and OEMs may increase as a percentage of total revenue as the Company expands its product capabilities and focuses its sales efforts on its distribution channels.

The Company relies on its customers and resellers to submit purchase orders for its product and services. In addition, the Company enters into general sales contracts with its customers and resellers; however, none of its customers or resellers is obligated to purchase its product or its services pursuant to these contracts. All of the Company' s sales contracts contain provisions regarding the following:

- payment terms and conditions;
- warranties and repair procedures; and
- support and training obligations.

Typically, these contracts provide that the exclusive remedy for breach of the Company' s specified warranty is either a refund of the price paid or modification of the product to satisfy the warranty.

The Company has generally experienced a product sales cycle of six to nine months. The Company considers the life of the sales cycle to begin on the first face-to-face meeting with the prospective customer and end when product is shipped. The length of the sales cycle for customer orders depends on a number of factors, including:

- a customer' s awareness of the capabilities of the type of solutions Apropos sells and the amount of customer education required;

- concerns that the Company' s customer may have about its limited operating history and track record and the Company' s size compared to many of its larger competitors;
- a customer' s budgetary constraints;
- the timing of a customer' s budget cycles;
- concerns of the Company' s customer about the introduction of new products by the Company or its competitors that would render its current product noncompetitive or obsolete; and
- downturns in general economic conditions, including reductions in demand for contact center services.

The Company' s OEM contracts contain additional provisions regarding product technical specifications, labeling instructions, and other instructions regarding customization and rebranding. The Company' s OEM contracts contain volume discounts.

Sales to customers outside the United States accounted for 21.4% and 17.1% of the Company' s total revenue during the three months ended June 30, 2005 and 2004, respectively. Revenues derived from customers outside of North America accounted for 27.9% and 18.1% of the Company' s total revenues in the six months ended June 30, 2005 and 2004, respectively. Management expects the portion of the Company' s total revenue derived from sales to customers outside the United States to be comparable with 2004 results.

Cost of goods and services. Cost of goods and services consists primarily of:

- payments for third party software used with the Company' s product;
- the cost of compensation for technical support, education, and professional services personnel;
- other costs related to facilities and office equipment for technical support, education, and professional services personnel; and
- the cost of reimbursable travel included in revenue.

The Company recognizes costs of software, implementation services, support and training services as they are incurred.

Operating expenses. The Company generally recognizes its operating expenses as they are incurred. Sales and marketing expenses consist primarily of compensation, commission, and travel expenses along with other marketing expenses, including trade shows, public relations, telemarketing campaigns, and other promotional expenses. Research and development expenses consist primarily of compensation expenses for personnel and, to a lesser extent, independent contractors. General and administrative expenses consist primarily of compensation for administrative, financial, and information technology personnel and a number of non-allocable costs, including professional fees, legal fees, accounting fees, and bad debts.

Capitalization of certain software development costs. Research and development expenditures are charged to operations as incurred. SFAS No. 86, "Accounting for the Costs of Computer Software To Be Sold, Leased, or Otherwise Marketed," requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company' s product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have not been significant. Through June 30, 2005, all software development costs have been expensed.

Allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts to reflect the expected uncollectability of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company has determined that the receivable will not be collected. Accounts receivable balances are determined to be delinquent when the amount is past due based on the contractual terms with the customer.

Income taxes. The Company provides for income taxes under the liability method, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, a valuation allowance is required against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Management regularly evaluates the recoverability of the deferred tax assets and the level of the valuation allowance. At such time as it is determined that it is more likely than not that deferred tax assets are realizable, the valuation allowance will be appropriately reduced.

Results of Operations

The following table sets forth, for the periods indicated, the percentage of total revenue represented by certain items included in the Company' s "Condensed Consolidated Statements of Operations" in the condensed consolidated financial statements. Percentages are calculated from operating results rounded to the nearest thousand and may not equal calculations from the numbers referenced below in this section which may be rounded to the nearest hundred thousand. Operating performance for any period is not necessarily indicative of performance for any future periods.

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenue				
Software licenses	30.5%	33.0%	28.4%	35.8%
Services and other	69.5%	67.0%	71.6%	64.2%
Total revenue	100.0%	100.0%	100.0%	100.0%
Costs of goods and services				
Cost of software	1.4%	2.3%	1.1%	2.8%
Cost of services and other	22.3%	20.6%	23.9%	18.5%
Total costs of goods and services	23.7%	22.9%	25.0%	21.3%
Gross margin	76.3%	77.1%	75.0%	78.7%
Operating expenses				
Sales and marketing	39.4%	35.4%	40.3%	33.9%
Research and development	26.1%	20.8%	26.0%	20.6%
General and administrative	26.4%	19.0%	25.2%	20.2%
Restructuring and other charges (credits)	(4.2)%	1.8%	(2.2)%	4.5%
Total operating expenses	87.7%	77.0%	89.3%	79.2%
Operating income (loss)	(11.4)%	0.1%	(14.3)%	(.5)%
Other income (expense)	6.3%	2.1%	5.8%	1.7%
Net income (loss)	(5.1)%	2.2%	(8.5)%	1.2%

Quarter Ended June 30, 2005, Compared to Quarter Ended June 30, 2004

Revenue. Revenue decreased 10.4% to $4.5 million in the quarter ended June 30, 2005, from $5.0 million in the quarter ended June 30, 2004.

Revenue from software licenses decreased 17.1% to $1.4 million in the quarter ended June 30, 2005, from $1.6 million in the quarter ended June 30, 2004. The Company primarily attributes this decrease in software revenue to fewer orders from existing customers in the current quarter.

Revenue from services and other, consisting of professional services, customer support and rebillable costs, decreased 7.1% to $3.1 million in the quarter ended June 30, 2005, from $3.3 million in the quarter ended June 30, 2004. The Company primarily attributes this decrease to lower professional services revenue and to a lesser extent a decrease in customer support revenues. The decrease in professional services revenue was primarily due to less subcontracted services and service project mix. The current quarter service mix had fewer higher value new system implementations and more upgrades and special projects than the year ago quarter.

Gross margin. Gross margins declined to 76.3% of total revenue in the quarter ended June 30, 2005, from 77.1% of total revenue in the quarter ended June 30, 2004. This decline is due primarily to a lower product mix of higher margin software.

Gross margins from software licenses increased to 95.5% of software revenue in the quarter ended June 30, 2005 from 92.9% of software revenue in the quarter ended June 30, 2004. Product costs consist primarily of third party software used in conjunction with the Company' s software, which varies based on customer configurations.

Gross margin from services and other represented 67.9% of services and other revenue in the quarter ended June 30, 2005, and 69.4% of services and other revenue in the quarter ended June 30, 2004. This decline is due primarily to the decline in professional services revenue.

Operating expenses. Operating expenses increased 2.0% to $3.9 million in the quarter ended June 30, 2005, from $3.8 million in the quarter ended June 30, 2004. Excluding restructuring activity, on going operating costs increased by 9.4% due principally to increased recruiting costs, marketing program costs, and use of outside services. As a percentage of total revenue, operating expenses were 87.7% in the quarter ended June 30, 2005, and 77.0% in the quarter ended June 30, 2004.

Sales and marketing expenses decreased 0.3% to $1.8 million in the quarter ended June 30, 2005, from $1.8 million in the quarter ended June 30, 2004. The decrease in sales and marketing expenses resulted primarily from lower commissions offset by marketing program expenses.

Research and development expenses increased 12.4% to $1.2 million in the quarter ended June 30, 2005, from $1.0 million in the quarter ended June 30, 2004. The increase in research and development expenses related primarily from increased use of outside services, including off-shore engineering resources, and recruiting costs.

General and administrative expenses increased 24.3% to $1.2 million in the quarter ended June 30, 2005, from $.9 million in the quarter ended June 30, 2004. The increases in general and administrative expenses were primarily due to recruiting costs associated with the on-going CEO search, outside staffing services, and bad debt expenses.

Restructuring and other charges (credits). In the second quarter of 2005, the Company recorded a credit of $187,000. This was due to the successful sublet of vacated space at the corporate headquarters. In the second quarter of 2004, the Company recorded a charge of $88,000 to increase previous provisions due to delays in subletting the same vacant space.

Other income and expense. Interest income was $287,000 in the quarter ended June 30, 2005, and $107,000 in the quarter ended June 30, 2004. The increase in interest income is the result of an increase in investment yields.

Income taxes. There has been no provision or benefit for income taxes for any period since 1995 due to the Company' s operating losses. At June 30, 2005, the Company had approximately $55.5 million of domestic operating loss carryforwards for federal income tax purposes, which expire beginning in 2011through 2023. Based on Internal Revenue Code regulations relating to changes in ownership in the Company, utilization of a portion of the net operating loss carryforwards is subject to annual limitations. At June 30, 2005, the Company had foreign operating losses of approximately $3.6 million, which may be limited. The Company' s use of these net operating losses may be limited in future periods.

Net income (loss). The net loss for the three months ended June 30, 2005 was $229,000. The Company recorded net income for the three months ended June 30, 2004 of $109,000. The change is primarily due to lower revenues and increased operating expenses offset to a lesser extent by restructuring activity.

Six Months Ended June 30, 2005, Compared to Six Months Ended June 30, 2004

Revenue. Revenue decreased 14.4% to $8.7 million in the six months ended June 30, 2005, from $10.1 million in the six months ended June 30, 2004.

Revenue from software licenses decreased 32.2% to $2.5 million in the six months ended June 30, 2005, from $3.6 million in the six months ended June 30, 2004. The Company primarily attributes this decrease in software revenue to fewer add-on orders from existing customer deals in the first six months of 2005 compared to the first six months of 2004. The Company also received fewer new customer orders in the current period compared to the prior period.

Revenue from services and other, consisting of professional services, customer support and rebillable costs, decreased 4.5% to $6.2 million in the six months ended June 30, 2005, from $6.5 million in the six months ended June 30, 2004. The Company primarily attributes this decrease to fewer customers purchasing new systems. The decrease was also the result of lower customer support revenues due to certain customers downsizing their systems thereby lowering their support costs.

Gross margin. Gross margins declined to 75.0% of total revenue in the six months ended June 30, 2005, from 78.7% of total revenue in the six months ended June 30, 2004. This decline is due primarily to a lower product mix of higher margin software.

Gross margins from software licenses increased to 96.1% of software revenue in the six months ended June 30, 2005 from 92.1% of software revenue in the six months ended June 30, 2004. Product costs consist primarily of third party software used in conjunction with the Company' s software, which varies based on customer configurations.

Gross margin from services and other represented 66.6% of services and other revenue in the six months ended June 30, 2005, and 71.2% of services and other revenue in the six months ended June 30, 2004. The decrease is primarily due to the decline in professional services revenue and to increased use of subcontracted services for implementation services.

Operating expenses. Operating expenses decreased 3.4% to $7.7 million in the six months ended June 30, 2005, from $8.0 million in the six months ended June 30, 2004. This decrease primarily reflects lower restructuring activity offset by increased marketing program costs and outside services. As a percentage of total revenue, operating expenses were 89.3% in the six months ended June 30, 2005, and 79.1% in the six months ended June 30, 2004.

Sales and marketing expenses increased 1.8% to $3.5 million in the six months ended June 30, 2005, from $3.4 million in the six months ended June 30, 2004. The increase in sales and marketing expenses resulted primarily from increased marketing programs offset by lower commissions.

Research and development expenses increased 8.2% to $2.3 million in the six months ended June 30, 2005, from $2.1 million in the six months ended June 30, 2004. The increase in research and development expenses related primarily to an increase in outside services and recruiting costs.

General and administrative expenses increased 6.8% to $2.2 million in the six months ended June 30, 2005, from $2.0 million in the six months ended June 30, 2004. The increases in general and administrative expenses were primarily due to increased recruiting costs, personnel related compensation, and bad debts offset to a lesser extent by lower legal fees and insurance costs.

Restructuring and other charges (credits). In the second quarter of 2005, the company reduced the restructuring reserve by $187,000 due to the successful sublet of vacated space at the corporate headquarters. In the six months ended June 30, 2004, the Company recorded charges of $456,000. In late January 2004, the U.K. operations moved into new premises that are more suitable for their current staffing levels. The old facility, which had a lease through March 2005, was in use until the move. The U.K. lease termination charge of approximately $309,000, consisted of forfeiture of the rent deposit, abandonment of assets, and other direct disposal costs. Additionally, the Company recorded adjustments to increase the reserve in the first and second quarters totaling $147,000 related to the consolidation of the corporate headquarters. These adjustments were due to the fact the Company was unable to find a tenant to sublet the excess facility space and thereby delayed the start of anticipated sublet income by nine months.

Other income and expense. Interest income was $527,000 in the six months ended June 30, 2005, and $203,000 in the six months ended June 30, 2004. The increase in interest income is a result of an increase in investment yields.

Income taxes. There has been no provision or benefit for income taxes for any period since 1995 due to the Company' s operating losses. At June 30, 2005, the Company had approximately $55.5 million of domestic operating loss carryforwards for federal income tax purposes, which expire beginning in 2011through 2023. Based on Internal Revenue Code regulations relating to changes in ownership in the Company, utilization of a portion of the net operating loss carryforwards is subject to annual limitations. At June 30, 2005, the Company had foreign operating losses of approximately $3.6 million, which may be limited. The Company' s use of these net operating losses may be limited in future periods.

Net income (loss). The Company recorded a loss of $740,000 in the six months ended June 30, 2005. The Company recorded net income for the six months ended June 30, 2004 of $124,000. The change is primarily due to a decrease in revenue partially offset by lower operating expenses and increased interest income.

Liquidity and Capital Resources

The Company' s operating activities resulted in net cash outflows of $350,000 for the six months ended June 30, 2005 compared to net cash inflows of $1,047,000 for the six months ended June 30, 2004. The operating cash outflow for 2005 was primarily the result of net losses, the net change in restructuring activity, and payments for compensation accruals. These outflows were offset to a lesser extent by a reduction of accounts receivable, increases in deferred revenue, deposits received from customers, and increases in accounts payable. The operating cash inflow for 2004 was primarily the result of inflows from net income, a net change in restructuring activity, and a decrease in accounts receivable, offset to a lesser extent by outflows associated with a decrease in accrued expenses.

The Company' s investing activities resulted in net cash inflows of $11.7 million and $1.5 million for the six months ended June 30, 2005 and 2004, respectively. The inflows were the result of net proceeds from maturities of short-term

investments offset by purchases of short-term investments and, to a lesser extent, capital expenditures. During the first half of 2005, management made a decision to divest investments in auction rate securities. The proceeds from these sales resulted in most of the proceeds to be classified as cash equivalents.

Financing activities generated $419,000 and $703,000 in cash in the first six months ended June 30, 2005 and 2004, respectively. These funds were generated from proceeds received from stock issuances related to the Company' s stock option and employee stock purchase plans.

As of June 30, 2005, the Company had no long-term obligations other than operating leases related to facilities and equipment utilized by the Company and a purchase obligation associated with third party software utilized with its product. The following table summarizes the minimum lease payments for these operating leases as of June 30, 2005:

in thousands	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$ 1,326	$ 1,293	$ 33	None	None
Purchase obligations	140	70	70	None	None
Total contractual cash obligations	$ 1,466	$ 1,363	$ 103	None	None

The Company believes that its capital requirements, in large part, depend on future results of operations and, ultimately, achievement of profitability. The Company expects to devote resources to research and development efforts, to expand sales channels and marketing lead generation programs, to fund capital expenditures, and to provide for working capital and other general corporate purposes. Management believes that the existing cash and short-term investment balances will be sufficient to meet the working capital and capital expenditure requirements for at least the next twelve months.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Risk

The Company' s exposure to market risk for changes in interest rates relate primarily to the change in the amount of interest income the Company can earn on its investments. The Company does not use derivative financial instruments in its investment portfolio. The Company had short-term investments of $17.0 million at June 30, 2005. The Company' s short-term investments consist primarily of government agency notes, bank certificates of deposit and corporate commercial paper. The Company considers all investments with original maturities of less than one year, but greater than 90 days, to be short-term investments. These investments are subject to interest rate risk and will fall in value if market interest rates increase. The Company believes a hypothetical increase in market interest rates by 10.0% from levels at December 31, 2004, would cause the fair value of these short-term investments to fall by an immaterial amount. Since the Company is not required to sell these investments before maturity, the Company has the ability to avoid realizing losses on these investments due to a sudden change in market interest rates. On the other hand, declines in the interest rates over time will reduce interest income.

Foreign Currency Risk

The Company develops products in the United States and sells these products in North America, Europe, South America, Asia, Africa, and Australia. As a result, its financial results could be affected by various factors, including changes in foreign currency exchange rates or weak economic conditions in foreign markets. As sales are generally made in U.S. dollars or British pound sterling, a strengthening of the dollar or pound could make the Company' s products less competitive in foreign markets. Given the level of income the Company currently derives from its foreign operations, the Company considers this exposure to be minimal. The Company believes a 10.0% change in exchange rates would not have a significant impact on its future earnings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as

amended (the "Exchange Act"), as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company' s management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2005 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information.

Item 1. Legal Proceedings.

See Note 5 to the Company' s unaudited condensed consolidated financial statements in Item 1 - Part I of this Quarterly Report on Form 10-Q, which is hereby incorporated by reference.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

(a) The annual meeting of shareholders of Apropos, Inc. was held on June 8, 2005.
(b) Pursuant to Instruction 3 to Item 4, no response is required to this item.
(c) At the Annual Meeting conducted on June 8, 2005 the shareholders voted on the election of directors. The following individuals were elected to the board of directors to serve terms ranging until the 2006 to 2008 annual meeting of stockholders or until their successors are duly elected and qualified:

Nominee	Votes for	Votes against	Votes abstained	Broker non-votes
John M. Kratky	12,557,669	0	746,855	0
Steven M. Capelli	12,822,046	0	482,478	0
David N. Campbell	12,735,592	0	568,932	0
Keith L. Crandell	12,503,437	0	801,087	0
Stephen E. Webb	12,790,424	0	514,100	0

Total shares voted of 13,304,524 represented 74.4% of total shares outstanding as of the April 22, 2005 stock record date.

Item 5. Other Information.

On August 10, 2005, the Company entered into an employment agreement with Richard W. Cotter, the Senior Vice President, Sales, which expires on August 8, 2008. The following description of the employment agreement is a summary of the material terms of the agreement and does not purport to be complete, and is qualified in its entirety by reference to the agreement, a copy of which is attached to hereto Exhibit 10.25, which is incorporated herein by reference.

Mr. Cotter' s employment agreement provides that he will receive an annual base salary of $190,000 per year. The employment agreement provides that Mr. Cotter is eligible for a bonus for each full fiscal year if certain revenue and financial targets are achieved. Mr. Cotter is also entitled to three weeks of paid vacation during each year of employment and to participate in employee benefit plans made available to employees and/or other officers.

The Company may terminate Mr. Cotter' s employment with or without cause (as defined in the employment agreement) or upon the death or disability of Mr. Cotter. Mr. Cotter may terminate his employment with the Company upon 90 days' prior written notice.

If Mr. Cotter is terminated by the Company without cause, or Mr. Cotter terminates the employment agreement within three months of a change of control or of a material reduction in his salary or benefits or a material change in his responsibilities, Mr. Cotter will receive severance pay equal to nine months base salary. If Mr. Cotter voluntarily terminates his employment, the Company may, at its election, pay Mr. Cotter his annual base salary and provide benefits for up to 90 days following the notice of termination; provided, however, that Mr. Cotter will only be entitled to such compensation and benefits if he continues to satisfy his obligations under the employment agreement. If Mr. Cotter' s employment is terminated because of death or disability, the Company shall continue to pay Mr. Cotter or his estate his annual base salary for a period of six months following the date of termination of employment.

In connection with his employment agreement, Mr. Cotter also entered into a noncompetition, nondisclosure and developments agreement with the Company. This agreement provides that during the term of Mr. Cotter' s employment with the Company and for a period of two years thereafter, Mr. Cotter will not compete with the Company or solicit any employees of the Company. The nondisclosure provisions in this agreement continue indefinitely after termination of employment. The agreement also provides that Mr. Cotter assigns to the Company any and all right to any intellectual property designed or developed by the officer during his period of employment except in specified circumstances.

Item 6. Exhibits.

(a) The following exhibits are included herein:

10.24*	Services Agreement, dated as of June 20, 2005, between the Company and InfoMentis, Inc.
10.25	Employment agreement dated as of August 10, 2005 between Richard W. Cotter (the "Employee) and Apropos Technology, Inc.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed with the Commission as an exhibit to the Company' s Report on form 8-K on June 29, 2005 and incorporated herein by reference.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 12, 2005.

Apropos Technology, Inc.

/s/ FRANCIS J. LEONARD

Francis J. Leonard
Chief Financial Officer and Vice President
(Principal Financial Officer and Authorized Officer)

Exhibit 10.25

EMPLOYMENT AGREEMENT

THIS AGREEMENT, by and between Richard W. Cotter (the "**Employee**") and Apropos Technology, Inc., an Illinois corporation (the "**Company**"), is made as of the 10th day of August, 2005.

In consideration of the mutual covenants herein contained, and inconsideration of the employment of Employee by the Company, the parties agree as set forth below.

1. Duties and Scope of Employment.

(a) **Position**. The Company agrees to employ the Employee under the terms of this Agreement in the position of Senior Vice President, Sales. Employee shall report to the President of the Company. The primary duties and responsibilities of the Senior Vice President, Sales as of the date hereof are set forth on Exhibit A. The Employee' s duties and responsibilities shall not be limited by Exhibit A, and may be modified, reduced or expanded at any time to accommodate the Company' s needs. Employee shall use his best efforts to fulfill his duties and responsibilities.

(b) **Other Activities**. The Employee shall devote his full business efforts and time to the Company during normal working hours. Employee shall not be involved in any other activities with an expectation of profit, other than passive investments, during these hours.

(c) **Noncompetition, Nondisclosure and Developments**. As a condition of employment, concurrently with the execution hereof, Employee agrees to execute the Noncompetition, Nondisclosure and Developments Agreement set forth in Exhibit B.

2. Compensation.

(a) **Base Salary**. The Employee shall be paid a base salary (the "**Base Compensation**") of $190,000 per year, payable in accordance with the Company' s standard payroll policies. The President shall review Employee' s performance and the Company' s financial and operating results on at least an annual basis and shall report his findings to the Compensation Committee. The Compensation Committee, in its sole discretion, may increase Employee' s base salary as it deems appropriate based on such review.

(b) **Bonus**. Employee shall also be eligible for a bonus each full fiscal year if revenue and financial targets are achieved. In the event Employee' s employment with the Company terminates for any reason other than pursuant to Section 6(c) hereof (voluntary termination by the Employee) or 6(b)(ii) hereof (Termination for Cause), Employee shall be entitled to receive a pro rated bonus, determined by multiplying the bonus earned for the year through the termination date, if any, by a fraction representing the portion of the year during which he was employed. The bonus shall be paid on February 15th of the following year. If Employee' s employment with the Company terminates pursuant to Section 6(c) or Section

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6(b)(ii) hereof, Employee shall be deemed to have forfeited his entire bonus for the year and no bonus shall be due or payable by the Company. The portion of the bonus tied to order bookings will be in effect up to the termination date and paid in accordance with normal payment schedules.

(c) **Vacation**. Employee shall be entitled to three (3) weeks paid vacation during each year of employment. Such vacation shall be taken at a time mutually convenient for both the Company and the Employee. Unused vacation time may not be accrued from year to year without the Company' s prior written approval. In the event this Agreement is terminated by either the Company or the Employee, the Employee shall be paid for any unused, accrued vacation time.

3. Definitions. As used herein, the following definitions shall apply:

(a) "**Termination for Cause**" shall mean the termination of employment of Employee as a result of (i) dishonesty or illegal conduct by Employee intended to result in gain or personal enrichment of Employee, (ii) failure by Employee to perform, or gross negligence in performing, the duties and obligations of Employee' s employment which failure is not remedied within ten days following written notice from the Company; (iii) the conviction of Employee of a felony; (iv) Employee' s continued breach of any term of this Agreement or Company policy after notice and ten days opportunity to cure, or (v) a breach of the Noncompetition, Nondisclosure and Developments Agreement of even date herewith between the Company and Employee which breach is not remedied within ten days following written notice from the Company.

(b) "**Constructive Termination**" shall mean a material reduction in Employee' s salary or benefits not agreed to by Employee, except in connection with a decrease to be applied because the Company' s performance has decreased and which is also applied to all other officers, and excluding the substitution of substantially equivalent compensation and benefits.

(c) "**Disability**" shall mean that the Employee, at the time notice is given, has been unable to perform his duties under this Agreement for a period of not less than six (6) consecutive months or for a period of two hundred seventy (270) days in any three hundred sixty-five (365) day period as the result of his incapacity due to physical or mental illness. In the event that the Employee resumes the performance of substantially all of his duties hereunder before the termination of his employment under Section 6(b)(iii) becomes effective, the notice of termination shall automatically be deemed to have been revoked.

(d) "**Voluntary Termination of Employment**" shall mean Employee voluntarily terminates his employment with the Company, unless such termination occurs within three (3) months following a Constructive Termination.

(e) "**Change in Control**" shall mean the occurrence of one of the following events: (i) the consummation of a merger of the Company with any other entity, other than a merger that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power

represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger, or (ii) the stockholders of the Company approve a plan of complete liquidation of the Company or (iii) the sale or disposition of all or substantially all the Company' s assets.

4. Employee Benefits. Employee shall be entitled to participate in those employee benefit plans (including savings or profit-sharing plans, stock purchase plans, deferred compensation plans, supplemental retirement plans, life, disability, health, accident another insurance programs) made available to employees generally and/or to other officers, and subject in each case to the eligibility requirements and applicable terms and conditions of the plan or program in question and to the determination of any committee or the Board of Directors administering such plan or program.

5. Business Expense and Travel. Employee shall be authorized to incur necessary and reasonable travel, entertainment and other business expenses in connection with his duties hereunder. The Company shall reimburse the Employee for such expenses upon presentation of an itemized accounting and appropriate supporting documentation, all in accordance with the Company' s generally applicable policies.

6. Term of Employment.

(a) **Basic Rule**. The Company agrees to continue the Employee' s employment, and the Employee agrees to remain in the employ of the Company, from the date of this Agreement until August 8, 2008, unless earlier terminated pursuant to the provisions of this Agreement.

(b) **Termination by the Company**. The Company may terminate Employee' s employment at any time, for any reason or for no reason.

(i) **Termination Without Cause**. If the Company terminates Employee' s employment for any reason (other than following notice of voluntary termination by the Employee, Termination for Cause, or termination as a result of Employee' s Death or Disability) the provisions of Section 7(a) shall apply.

(ii) **Termination For Cause**. If the Company terminates Employee' s employment for Cause or following notice of voluntary termination by Employee, the provisions of Section 7(b) shall apply.

(iii) **Termination on Death or Disability**. If the Company terminates Employee' s employment as a result of Employee' s Death or Disability, the provisions of Section 7(c) shall apply.

(c) **Voluntary Termination by the Employee**. The Employee may terminate his employment voluntarily by giving the Company ninety (90) days' advance notice in writing, at which time the provisions of Section 7(b) shall apply. The Company may elect to have such termination effective at any date following such notice but prior to the expiration of the ninety (90) day period. However, if the Employee terminates his employment within three (3) months

following a Constructive Termination or a Change in Control, the provisions of Section 7(a) shall apply.

(d) **Waiver of Notice**. Any waiver of notice shall be valid only if it is made in writing and expressly refers to the applicable notice requirement in this Section 6.

7. Payments Upon Termination of Employment.

(a) **Payments Upon Termination Pursuant to Section 6(b)(i) and Constructive Termination**. If, during the term of this Agreement, the Employee' s employment is terminated by the Company pursuant to Section 6(b)(i) or voluntarily by Employee within three (3) months following a Constructive Termination or a Change in Control, the Company shall continue to pay to the Employee his Base Compensation for nine (9) months following the date of Employee' s actual termination of employment (the "**Severance Payment**"). The Severance Payment shall be in lieu of any further payments to the Employee and any further accrual of benefits with respect to periods subsequent to the date of the employment termination.

(b) **Termination By Company For Cause**. If the Employee' s employment is terminated pursuant to Section 6(b)(ii), no compensation or payments will be paid or provided to the Employee following termination.

(c) **Voluntary Termination**. If the Employee voluntarily terminates his employment (other than within three (3) months following a Constructive Termination), the Company at its election may continue to pay Employee his Base Salary and the portion of bonus tied to order bookings through the date of termination and provide the benefits referred to in Section 4 for up to ninety (90) days following Employee' s notice of termination, or such shorter period if the Company elects to have such termination effective prior to the end of such ninety (90) day period; provided, however, that Employee shall only be entitled to such compensation and benefits, if Employee continues to satisfy his duties and responsibilities hereunder. Notwithstanding the preceding sentence, the Employee' s rights under the benefit plans and any stock options shall be determined under the provisions of the applicable plan.

(d) **Termination On Death or Disability**. If the Employee' s employment is terminated because of Employee' s Death or Disability (as defined in Section 3(c) herein), then the Company shall continue to pay to the Employee or his estate, as the case may be, his Base Compensation for six (6) months following the date of termination of employment. Employee shall also receive any disability payments that are provided in the Company' s standard benefit plans, which amounts shall offset and reduce the Base Compensation otherwise payable under the preceding sentence.

(e) Any payments pursuant to this Section 7 are conditioned upon prior execution by the Employee of a waiver, general release of any known or unknown claims and covenant not to sue, in a form requested by the Company.

(f) The Company and the Employee acknowledge that the Employee' s employment is at will, as defined under Illinois law.

8. Successors.

(a) **Company' s Successors**. Any successor to substantially all of the Company' s assets shall assume this Agreement and agree expressly to perform this Agreement in the same manner and to the same extent as the Company would be required to perform it in the absence of a succession.

(b) **Employee' s Successors**. This Agreement and all rights of the Employee hereunder shall be binding upon, inure to the benefit of, and be enforceable by, the Employee' s personal or legal representatives, devises and legatees in the event of Employee' s death. Any purported or attempted assignment or transfer by the Employee of any of the Employee' s duties, responsibilities or obligations hereunder shall be void.

9. **Notice**. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or three (3) days after being mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Employee, mailed notices shall be addressed to him at the home address which he most recently communicated to the Company in writing in accordance herewith(provided that no such change shall be effective until actually received by the Company). In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its President.

10. **Miscellaneous Provisions**.

(a) **Waiver**. No provision of this Agreement shall be modified, waived or discharged, unless the modification, waiver or discharge is agreed to in writing and signed by both parties. No waiver by either party of any breach of, or of compliance with any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(b) **Whole Agreement**. No agreements, representations or understandings (whether oral or written and whether expressed or implied) that are not expressly set forth in this Agreement or the Exhibits hereto have been made or entered into by either party with respect to the subject matter hereof. This Agreement shall supersede and control in the event of any conflict between this Agreement and any other correspondence with the Company.

(c) **Choice of Law**. This Agreement shall be governed by and construed in accordance with the internal substantive laws of the State of Illinois.

(d) **Severability**. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(e) **No Assignment of Benefits**. Employee' s rights to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor' s process, and any action in violation of this subsection (e) shall be void.

(f) **Employment Taxes**. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.

(g) **Counterparts**. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS THEREOF, each of the parties has executed this Agreement as of the day and year first written above.

EMPLOYEE:

/s/ Richard W. Cotter
Richard W. Cotter

APROPOS TECHNOLOGY, INC.

By: /s/ Ken Barwick
Ken Barwick, President

EXHIBIT A

DUTIES & RESPONSIBILITIES
OF SENIOR VICE PRESIDENT
OF SALES, AMERICAS

Responsible for all sales operations globally. Specific responsibilities will include:

Achieving revenue goals set by the Company.

Developing a "go to market" organization chart optimized for efficiencies and positioning the company for strong, sustained, revenue growth.

Implementation of a complete compensation plan for all sales teams, including Inside Sales, Large Account Sales, Account Management, and Geographic territory sales.

Building a world-class, high quality sales team.

Working with the global HR & Learning team, launch a solid, focused sales process training program which is integrated with our solution selling approach and which results in improved qualification and closure of key deals.

Improve forecasting accuracy and visibility into the sales pipeline for the management team

Improve (sales team) employee performance, morale, stability and turnover.

Develop a relevant, consistent and highly motivational reward and recognition plan for the Americas sales team.

Lead by example. Get in front of the right deals.

Assist in the presentation, positioning, negotiating and closing of significant customer opportunities.

EXHIBIT B

APROPOS TECHNOLOGY, INC.

EMPLOYEE NONCOMPETITION,
NONDISCLOSURE AND DEVELOPMENTS AGREEMENT

In consideration and as a condition of my employment or continued employment by Apropos Technology, Inc., an Illinois corporation (the "**Company**"), I, Richard W. Cotter, hereby agree with the Company as follows:

1. During the period of my employment by the Company (the "**Employment Period**"), I will devote my full time and best efforts during normal working hours to the business of the Company. During the period of my employment by the Company and for two years thereafter, I agree that I will not, directly or indirectly, alone or as a partner, officer, director, employee or stockholder of any entity, (a) engage (including as an owner, employee, consultant or otherwise) or have an interest in any business activity that is in competition with the products or services being planned, developed, manufactured or sold by the Company, or (b) request or induce any customer or potential customer of the Company to not do business with the Company and/or to do business with a competitor of the Company, or (c) solicit, interfere with or endeavor to entice away any employee of the Company. The period following the termination of my employment during which a restriction applies (the "**Post-employment Period**") shall be extended by the length of any period of time during the Post-employment Period during which I am in violation of this paragraph plus the length of any court proceedings necessary to stop such violation.

2. I will not at any time, whether during or after the Employment Period, reveal to any person or entity any of the trade secrets or confidential information concerning the organization, business or finances of the Company or of any third party that the Company is under an obligation to keep confidential (including but not limited to trade secrets or confidential information respecting inventions, products, designs, methods, know-how, techniques, systems, processes, software programs, works or authorship, customer lists, projects, plans and proposals), except as may be required in the ordinary course of performing my duties as an employee of the Company, and I shall keep secret all matters entrusted to me and shall not use or attempt to use any such information in any manner for my personal benefit or that may injure or cause loss or may be calculated to injure or cause loss, whether directly or indirectly, to the Company. Further, I agree that during and after the Employment Period I shall not make, use or permit to be used any notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials of any nature relating to any matter within the scope of the business of the Company or concerning any of its dealings or affairs otherwise than for the benefit of the Company, it being agreed that all of the foregoing shall be and remain the sole and exclusive property of the Company, and that immediately upon the termination of my employment I shall deliver all of the foregoing, and all copies thereof, to the Company, at its main office.

3. If at any time or times during my employment, I shall (either alone or with others) make, conceive, create, discover, invent, or reduce to practice any invention, modification, discovery, design, development, improvement, process, software program, work of authorship, documentation, formula, data, technique, know-how, trade secret or intellectual property right whatsoever or any interest therein (whether or not patentable or registrable under copyright, trademark or similar statutes (including but not limited to the Semiconductor Chip Protection Act) or subject to analogous protection) (herein called "**Developments**"), then:

(a) such Developments and the benefits thereof are and shall immediately become the sole and absolute property of the Company and its assigns, as works made for hire or otherwise;

(b) I shall promptly disclose to the Company (or any persons designated by it) each such Development;

(c) as may be necessary to ensure the Company' s ownership of such Developments, I hereby assign any rights (including, but not limited to, any copyrights and trademarks) I may have or acquire in the Developments and benefits and/or rights resulting therefrom to the Company and its assigns without further compensation; and

(d) I shall communicate, without cost or delay, and without disclosing to others the same, all available information relating thereto (with all necessary plans and models) to the Company.

Notwithstanding the foregoing, this Paragraph 3 shall not apply to Developments for which no equipment, supplies, facility, or trade secret information of the Company was used and which was developed entirely on my own time, unless (a) the Development related (i) to the business of the Company, or (ii) to the Company' s actual or demonstrably anticipated research or development, or (b) the Development results from any work performed by me for the Company.

4. I will, during and after the Employment Period, at the request and cost of the Company, promptly sign, execute, make and do all such deeds, documents, acts and things as the Company and its duly authorized agents may reasonably require:

(a) to apply for, obtain, register and vest in the name of the Company alone (unless the Company otherwise directs) letters patent, copyrights, trademarks or other analogous protection in any country throughout the world and when so obtained or vested to renew and restore the same; and

(b) to defend any judicial, opposition or other proceedings in respect of such applications and any judicial opposition or other proceedings or petitions or applications for revocation of such letters patent, copyright, trademark or other analogous protection.

In the event the Company is unable, after reasonable effort, to secure my signature on any application for letters patent, copyright or trademark registration or other documents regarding any legal protection relating to a Development, whether because of my physical or mental incapacity or for any other reason whatsoever, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney-in-fact, to act for and in my behalf and stead to execute and file any such application or applications or other documents and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent, copyright or trademark registrations or any other legal protection thereon with the same legal force and effect as if executed by me.

5. I agree that any breach of this Agreement by me will cause irreparable damage to the Company and that in the event of such breach the Company shall have, in addition to any and all remedies under law, the right to an injunction, specific performance or other equitable relief to prevent the violation of my obligations hereunder, without the necessity of a bond or other security. I further agree and acknowledge that the post-employment and non-competition provisions set forth in Paragraph 1 hereof, and the remedies set forth in this paragraph, are necessary and reasonable to protect the business of the Company.

6. I understand that this Agreement does not create an obligation on the Company or any other person or entity to continue my employment.

7. No claim of mine against the Company shall serve as a defense against the Company' s enforcement of any provision of this Agreement.

8. I represent that there are no unpatented and unregistered copyrightable Developments that I have made, conceived or created prior to the Employment Period. I understand that it is only necessary to list the title and purpose of such Developments but not details thereof.

9. I am not a party to, or bound by the terms of, any agreement with or obligation to any previous employer or other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of my employment with the Company or to refrain from competing, directly or indirectly, with business of such previous employer or any other party. I further represent that my performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement or obligation to keep in confidence proprietary information, knowledge or data acquired by me in confidence or in trust prior to or during my employment with the Company, and I will not disclose to the Company or induce the Company to use any confidential or proprietary information or material belonging to any previous employer or others. I have not entered into, and I agree I will not enter into, any agreement, either written or oral, in conflict with the terms of this Agreement.

10. Any waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

11. I hereby agree that the provisions hereof are reasonable and are being entered into by me to induce the Company to enter into the Employment Agreement, which constitutes adequate compensation to me. I hereby agree that each provision herein shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, duration, activity, subject or otherwise so as to be unenforceable, such provision or provisions shall be construed by the appropriate judicial body by limiting or reducing it or them,

so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear.

12. My obligations under this Agreement shall survive the termination of my employment regardless of the manner of such termination and shall be binding upon my heirs, executors, administrators and legal representatives.

13. The term "**Company**" shall include Apropos Technology, Inc. and any of its subsidiaries, subdivisions or affiliates. The Company shall have the right to assign this Agreement to its successors and assigns, and all covenants and agreements hereunder shall inure to the benefit of and be enforceable by said successors or assigns.

14. This Agreement shall be governed by and construed in accordance with the internal substantive laws of the State of Illinois. Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Agreement) shall be governed by the laws of the State of Illinois and shall be commenced and maintained in any state or federal court located in Cook County, Illinois, and both parties hereby submit to the jurisdiction and venue of any such court.

IN WITNESS WHEREOF, the undersigned has executed this Noncompetition Nondisclosure and Developments Agreement as a sealed instrument as of the 10th day of August, 2005.

/s/ Richard W. Cotter

Richard W. Cotter

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Francis J. Leonard, certify that:

1. I have reviewed this report on Form 10-Q of Apropos Technology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the Registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the Registrant' s internal control over financial reporting that occurred during the Registrant' s most recent fiscal quarter (or the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the Registrant' s control over financial reporting; and

5. The Registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant' s auditors and the audit committee of Registrant' s board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant' s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant' s internal control over financial reporting.

Date: August 12, 2005

/s/ Francis J. Leonard

Francis J. Leonard, Chief Financial Officer, Vice President and Principal Executive Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Apropos Technology, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/s/ Francis J. Leonard

Francis J. Leonard, Chief Financial Officer, Vice President and Principal Executive Officer

August 12, 2005