

Edgar Filing: ADVANCED PHOTONIX INC - Form 10QSB

ADVANCED PHOTONIX INC  
Form 10QSB  
August 11, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 27, 2004

OR

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

Commission file no. 1-11056

ADVANCED PHOTONIX, INC.

Incorporated pursuant to the Laws of Delaware

IRS Employer Identification No. 33-0325826

1240 Avenida Acaso, Camarillo, CA 93012

(805) 987-0146

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

On August 6, 2004, 13,399,059 shares of Class A Common Stock, \$.001 par value, and 31,691 shares of Class B Common Stock, \$.001 par value, were outstanding.

ADVANCED PHOTONIX, INC.

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PART I FINANCIAL INFORMATION

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### ADVANCED PHOTONIX, INC.

#### CONSOLIDATED BALANCE SHEET AT JUNE 27, 2004 (UNAUDITED)

-----	
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$
Short term investments	1,
Accounts receivable, less allowance of \$46,000	2,
Inventories	2,
Prepaid expenses and other current assets	-----
Total Current Assets	7,-----
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost	4,
Less accumulated depreciation and amortization	(3,
Equipment and Leasehold Improvements, net	1,-----
OTHER ASSETS	
Goodwill, net of accumulated amortization of \$353,000	2,

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Patents, net of accumulated amortization of \$48,000  
 Non-Compete Agreement, net of current portion and  
 accumulated amortization of \$137,000  
 Other

Total Other Assets	2,
TOTAL ASSETS	\$ 11,

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ADVANCED PHOTONIX, INC.

CONSOLIDATED BALANCE SHEET - Continued  
 AT JUNE 27, 2004  
 (UNAUDITED)

-----  
 LIABILITIES AND SHAREHOLDERS' EQUITY  
 CURRENT LIABILITIES

Line of credit	\$
Accounts payable	
Accrued salaries, wages and benefits	
Current portion of capital lease payable	
Other accrued expenses	
Total Current Liabilities	1,

Capital lease payable, net of current portion

COMMITMENTS AND CONTINGENCIES

Class A redeemable convertible preferred stock, \$.001 par value;  
 780,000 shares authorized; 40,000 shares issued and outstanding

SHAREHOLDERS' EQUITY

Preferred stock, \$.001 par value; 10,000,000 shares authorized; 780,000  
 shares designated Class A redeemable convertible; no shares  
 issued and outstanding other than Class A redeemable convertible

Class A common stock, \$.001 par value; 50,000,000 shares authorized;  
 13,399,059 shares issued and outstanding

Class B common stock, \$.001 par value; 4,420,113 shares authorized;  
 31,691 shares issued and outstanding

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Additional paid-in capital	27,6
Accumulated Deficit	(17,6
	-----
Total Shareholders' Equity	10,0
	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 11,7
	=====

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

For the three month periods ended	June 27, 2004	Jun
-----	-----	-----
SALES	\$ 3,253,000	\$ 2
Cost of Goods Sold	1,956,000	1
	-----	-----
GROSS PROFIT	1,297,000	
Research and development expenses	42,000	
Sales and marketing expenses	283,000	
General and administrative expenses	619,000	
	-----	-----
INCOME FROM OPERATIONS	353,000	
	-----	-----
OTHER INCOME (EXPENSE)		
Interest income	5,000	
Interest expense	(5,000)	
Other, net	(6,000)	
	-----	-----
Other Income, net	(6,000)	
	-----	-----
NET INCOME	\$ 347,000	\$
	=====	=====
Basic Earnings Per Share	\$ 0.03	
Diluted Earnings Per Share	\$ 0.02	
Weighted Average Shares Outstanding	13,431,000	13

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See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

For the three month periods ended	June 27, 2004	Jun
-----		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 347,000	\$
Adjustments to reconcile net income to net cash provided by (used by) operating activities:		
Depreciation	91,000	
Amortization	20,000	
Disposal of fixed assets	14,000	
Changes in operating assets and liabilities:		
Short-term investments	--	
Accounts receivable	79,000	
Inventories	(431,000)	
Prepaid expenses and other current assets	34,000	
Other assets	17,000	
Accounts payable and accrued expenses	63,000	
	-----	-----
Net cash provided by (used by) operating activities	234,000	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(44,000)	
	-----	-----
Net cash used by investing activities	(44,000)	
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of line of credit	(500,000)	
Proceeds from exercise of stock options	1,000	
Proceeds from sale of fixed assets	2,000	
	-----	-----
Net cash provided by (used by) financing activities	(497,000)	
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(307,000)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,299,000	
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 992,000	\$
	=====	=====

See notes to consolidated financial statements.

ADVANCED PHOTONIX, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 27, 2004  
 (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Advanced Photonix, Inc. ("the Company") and the Company's wholly owned subsidiaries, Silicon Sensors Inc. ("SSI") and Texas Optoelectronics, Inc. ("TOI"). These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X and Regulation S-B. All significant intercompany accounts and transactions have been eliminated in consolidation. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included. Operating results for the three month period ended June 27, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending March 27, 2005. For further information, refer to the financial statements and notes thereto included in the Advanced Photonix, Inc. Annual Report on Form 10-KSB for the fiscal year ended March 28, 2004.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Income (Loss) Per Share: Net income (loss) per share is based on the weighted average number of common shares outstanding. Such weighted average shares were approximately 13,431,000 at June 27, 2004 and 13,406,000 at June 29, 2003. Net income (loss) per share calculations are in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" (SFAS 128). Accordingly, "basic" net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding for the year. The impact of Statement 128 on the calculation of earnings per share is as follows:

BASIC	Three Months Ended June 27, 2004	Three Months Ended June 29, 2003
-----	-----	-----
Average Shares Outstanding	13,431,000	13,406,000
Net Income	347,000	113,000
Basic Income Per Share	\$ 0.03	\$ 0.01

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NOTE 2 - Continued

DILUTED -----	Three Months Ended June 27, 2004 -----	Three Months Ended June 29, 2003 -----
Average Shares Outstanding	13,431,000	13,406,000
Net Effect of Dilutive Stock Options based on the treasury stock method using average market price	797,600	156,900
Total Shares	14,228,600	13,562,900
Net Income	347,000	113,000
Diluted Earnings Per Share	\$ 0.02	anti-dilutive
Average Market Price of Common Stock	\$ 2.36	\$ 0.92
Ending Market Price of Common Stock	\$ 2.40	\$ 0.90

The following stock options granted to Company employees, directors, and former owners were excluded from the calculation of earnings per share in the financial statements because they were anti-dilutive for the periods reported:

Three Months Ended June 27, 2004 -----		Three Months Ended June 29, 2003 -----	
No. of Shares Underlying Options	Exercise Price Per Share	No. of Shares Underlying Options	Exercise Price Per Share
-----		-----	
27,700	2.5000	16,000	0.5000
1,000	3.0940	56,000	0.5630
350,000	3.1875	45,000	0.6100
50,000	5.3440	500	0.6250
-----		-----	
428,700		18,000	0.6500
=====		-----	
		226,668	0.6700
		5,000	0.6875
		56,000	0.7500
		238,000	0.8000
		76,250	0.8600
		14,500	1.1875
		64,300	1.2500
		4,000	1.6250
		88,000	1.8750
		30,500	2.5000
		1,000	3.0940

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350,000	3.1875
50,000	5.3440
-----	-----
1,339,718	
=====	=====

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NOTE 2 - Continued

Inventories: Inventories consist of the following:

	June 27, 2004
	-----
Raw materials	\$ 2,548,000
Work in progress	1,496,000
Finished products	127,000
	-----
Total inventories	\$ 4,171,000
	=====
Less reserve	(934,000)
Progress bill and customer prepaid inventory	(583,000)
	-----
Inventories, net	\$ 2,654,000
	=====

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB issued Interpretation 46(r), ("FIN 46(r)") "Consolidation of Variable Interest Entities". The pronouncement amends Accounting Research Bulletin 51 to set standards to require financial statement consolidation of certain variable interest entities that meet specific characteristics if the company has a controlling financial interest. This interpretation shall be applied to all variable interest entities by the end of the first reporting period ending after December 15, 2004, for enterprises that are small business issuers. The Company will adopt this Interpretation on October 1, 2004.

The Company does not believe that this accounting pronouncement will have a material impact on its financial position or results of operations.

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### Item 2. Management's Discussion and Analysis

#### Application of Critical Accounting Policies

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Application of our accounting policies requires management to make judgments and estimates about the amounts reflected in the financial statements. Management uses historical experience and all available information to make these estimates and judgments, although differing amounts could be reported if there are changes in the assumptions and estimates. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, restructuring costs, impairment costs, depreciation and amortization, sales discounts and returns, warranty costs, taxes and contingencies. Management has identified the following accounting policies as critical to an understanding of our financial statements and/or as areas most dependent on management's judgment and estimates.

#### Revenue Recognition

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We generally recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or readily determinable, and collectibility is probable; which is generally the date of shipment. Sales are recorded net of sales returns and discounts. We recognize revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

#### Impairment of Long-Lived Assets

-----

We continually review the recoverability of the carrying value of long-lived assets using the methodology prescribed in Statement of Financial Accounting Standards (SFAS) 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." We also review long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Upon such an occurrence, recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows to which the assets relate, to the carrying amount. If the asset is determined to be unable to recover its carrying value, then intangible assets, if any, are written down first, followed by the other long-lived assets to fair value. Fair value is determined based on discounted cash flows, appraised values or management's estimates, depending on the nature of the assets.

#### Deferred Tax Asset Valuation Allowance

-----

We record a deferred tax asset in jurisdictions where we generate a loss for income tax purposes. Due to our history of operating losses, we have recorded a full valuation allowance against these deferred tax assets in accordance with SFAS 109, "Accounting for Income Taxes," because, in management's judgment, the deferred tax assets may not be realized in the foreseeable future.

#### Inventories

-----

Our inventories are stated at standard cost (which approximates the first-in, first-out method) or market. Slow moving and obsolete inventories are analyzed quarterly. To calculate a reserve for obsolescence, we compare the current on-hand quantities with both the projected usages for a two-year period and the actual usage over the past 12 months. On-hand quantities greater than projected usage are calculated at the standard unit cost. The production, engineering and purchasing departments review the initial list of slow-moving and obsolete items to identify items that have alternative uses in new or existing products. These items are then excluded from the analysis. The remaining amount of slow-moving and obsolete inventory is then reserved for. Additionally, non-cancelable open purchase orders for parts we are obligated to purchase where demand has been

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reduced may be reserved. Reserves for open purchase orders where the market price is lower than the purchase order price are also established.

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### Accounts Receivable and Allowance for Doubtful Accounts

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The Allowance for Doubtful Accounts is established by analyzing each account that has a balance over 90 days past due. Each account is individually assigned a probability of collection. The total amount determined to be uncollectible in the 90-days-past-due category is then reserved fully. The percentage of this reserve to the 90-days-past-due total is then established as a guideline and applied to the rest of the non-current accounts receivable balance where appropriate. When other circumstances suggest that a receivable may not be collectible, it is immediately reserved for, even if the receivable is not yet in the 90-days-past-due category.

## RESULTS OF OPERATIONS

### NET PRODUCT SALES

Sales for the first quarter of fiscal year 2005 ("Q1 05") were \$3,253,000, an increase of \$606,000 or 23% from sales of \$2,647,000 for the first quarter of fiscal year 2004 ("Q1 04"). While the Company recorded increases in four of its principal market segments, the most significant revenue increases came from its military/aerospace and medical markets. Sales to the military aerospace markets rose to \$1.3 million in Q1 05, an increase of \$440,000 or 50% over the prior year, and represented 40% of total sales for the quarter (as compared to 33% of total sales for Q1 04). Similarly, sales to the medical markets increased by \$140,000 or 35% over Q1 04, and represented 16% of total sales for the quarter (as compared to 15% for Q1 04). While we continue to expect sales to increase in fiscal 2005 as compared to fiscal 2004, the quarter to quarter comparisons can vary significantly for both revenue and market analyses due to fluctuations in customer delivery and production schedules which are beyond the control of the Company.

### COSTS AND EXPENSES

Cost of goods sold increased by \$182,000 (10%) in Q1 05 as compared to Q1 04. Stated as a percentage of net sales, cost of goods sold decreased by 7 percentage points to 60% as compared to 67% in Q1 04. Likewise, gross profit margin on net sales increased 7 percentage points to 40% as compared to 33% in Q1 04. The improvement in gross margin is directly attributable to increased revenue allowing for greater absorption of fixed overhead expenses as well as production efficiencies achieved through the integration of multiple manufacturing facilities. As the closing of the Garland, Texas facility was not completed until May 2003, the results for Q1 04 included additional overhead expenses associated with that facility. As that business has now been fully absorbed into the California and Wisconsin facilities, total overhead has decreased significantly. In addition, Q1 05 margins were positively impacted by variations in product mix, as customer delivery schedules allowed for a greater percentage of products which typically carry higher gross margins to be shipped during the quarter. As such, the Company expects that the current gross margin may be slightly higher than what can be expected during the remainder of the fiscal year and anticipates that year end margin levels will be reflective of those realized in fiscal 2004.

Research and development ("R & D") costs decreased by \$36,000 (48%) to \$42,000 in Q1 05 as compared to Q1 04. The decrease in R & D costs is the result of the Company's ongoing plan to focus the R & D department on those projects which offer higher commercial potential per dollar spent. Thus, R&D expenses for any given quarter are directly reflective of the specific projects currently underway and the costs incurred during that period. During the remainder of the fiscal year, we expect to see slight increases in R & D spending, based on current revenue and project trends. However, R & D costs can vary, depending on the level of activity associated with new product development projects or customer-requested development contracts.

Marketing and sales expenses increased by \$42,000 (17%) to \$283,000 in Q1 05 as compared to Q1 04. Stated as a percentage of sales, marketing and sales expenses have remained at 9% for both Q1 05 and Q1 04. The slight increase in actual expense was due to increased advertising and personnel-related expenses, including travel and commission expenses. The Company believes that current marketing and sales expenses are indicative of what can be expected for the remainder of the fiscal year and anticipates they will continue to represent approximately 9% of total sales.

General and administrative ("G & A") expenses increased by \$176,000 (40%) to \$619,000 in Q1 05 as compared to Q1 04. As during fiscal 2004, the increase in general and administrative expenses continues to be primarily due to increased salary and related expenses as well as outside service/consultant expenses, most of which are related to acquisition investigation activities. Expressed as a percentage of net sales, general and administrative expenses represented 19% in Q1 05 as compared to 17% in Q1 04. As the majority of general and administrative expenses are fixed rather than variable, we expect that actual expenditures will remain relatively stable for the remainder of the current fiscal year and, as revenues increase, G & A expenses will decline as a percentage of sales.

The Company reported net income of \$347,000 or \$0.03 per share for Q1 05 as compared to net income of \$113,000 or \$0.01 per share in Q1 04.

#### FINANCIAL CONDITION

At June 27, 2004, the Company had cash, cash equivalents and short term investments of \$2.7 million and working capital of \$6.2 million. The Company's cash and cash equivalents decreased by \$307,000 during the three months ended June 27, 2004. Cash generated by operating activities totaled \$234,000 and was impacted by cash inflows from reductions of accounts receivable, prepaid and other assets as well as increases in accounts payable, which were partially offset by cash outlays for inventories during the period. In addition, \$500,000 was paid against the Company's credit line balance and \$44,000 was used for capital expenditures.

The Company is exposed to interest rate risk for marketable securities. Due to continually declining interest rates available to the Company pursuant to its investment policy, the Company was able to achieve the best yields on liquid money market and equity fund accounts and thus has held the majority of its available cash reserves in such accounts during the past year. At June 27, 2004, the Company held \$1.7 million in a highly liquid equity fund account which

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carries an average interest rate of 1.3%. During 2005, the Company will continue to monitor available interest rates and will attempt to utilize the best possible avenues of investment for its excess liquid assets.

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### Item 3. Controls and Procedures

Our Chief Executive Officer, President, and Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Certifying Officers have designed such disclosure controls and procedures to ensure that material information is made known to them, particularly during the period in which this report was prepared. The Certifying Officers have evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days of the date of this report and believe that the Company's disclosure controls and procedures are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### FORWARD LOOKING STATEMENTS

The information contained herein includes forward looking statements that are based on assumptions that management believes to be reasonable but are subject to inherent uncertainties and risks including, but not limited to, risks associated with the integration of newly acquired businesses, unforeseen technological obstacles which may prevent or slow the development and/or manufacture of new products, limited (or slower than anticipated) customer acceptance of new products which have been and are being developed by the Company, the availability of other competing technologies and a decline in the general demand for optoelectronic products.

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## PART II OTHER INFORMATION

Items 1 - 5  
None

Item 6                    Exhibits and Reports on Form 8-K  
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(a) Exhibits

- 31.1 Certification of the Registrant's Chairman, Chief Executive Officer, and Director pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Registrant's Chief Financial Officer and Secretary pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.3 Certification of the Registrant's President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company filed form 8-K on June 18, 2004 to report that it had issued a press release the same day announcing financial results for the quarter and year ended March 28, 2004.

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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.

Advanced Photonix, Inc.  
(Registrant)

Date: August 11, 2004  
-----

/s/ Richard Kurtz  
-----

Richard Kurtz  
Chairman, Chief Executive Officer  
and Director

/s/ Paul Ludwig  
-----

Paul Ludwig  
President

/s/ Susan Schmidt

-----  
Susan Schmidt  
Chief Financial Officer and Secretary