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ADVANCED PHOTONIX INC
Form 10QSB
November 12, 2003

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 September 28, 2003

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 November 7, 2003, 13,430,759 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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ADVANCED PHOTONIX, INC.

CONSOLIDATED BALANCE SHEET
AT SEPTEMBER 28, 2003
(UNAUDITED)

ASSETS

CURRENT ASSETS

Cash and cash equivalents \$

Short-term investments

Accounts receivable, less allowance of \$81,000

Inventories

Prepaid expenses and other current assets

Total Current Assets

EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost

Less accumulated depreciation and amortization

Total Equipment and Leasehold Improvements

OTHER ASSETS

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Goodwill, net of accumulated amortization of \$353,000
 Patents, net of accumulated amortization of \$46,000
 Non-Compete Agreement, net of accumulated amortization of \$81,000
 Other

Total Other Assets

TOTAL ASSETS

 \$
 =====

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED BALANCE SHEET - Continued
 AT SEPTEMBER 28, 2003

(UNAUDITED)

 LIABILITIES AND SHAREHOLDERS' EQUITY
 CURRENT LIABILITIES

Line of credit
 Accounts payable
 Accrued salaries, wages and benefits
 Current portion of capital lease payable
 Note payable
 Other accrued expenses

\$

Total Current Liabilities

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;
 13,430,759 shares issued and outstanding
 Class B common stock, \$.001 par value; 4,420,113 shares authorized;

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31,691 shares issued and outstanding

Additional paid-in capital

Accumulated Deficit

Total Shareholders' Equity

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

\$

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | Three Months Ended | | September 2001 |
|-------------------------------------|--------------------|--------------------|----------------|
| | September 28, 2003 | September 29, 2002 | |
| SALES | \$3,256,000 | \$1,838,000 | \$5,900,000 |
| Cost of goods sold | 2,131,000 | 1,307,000 | 3,900,000 |
| | ----- | ----- | ----- |
| GROSS PROFIT | 1,125,000 | 531,000 | 1,900,000 |
| Research and development expenses | 80,000 | 144,000 | 1,000,000 |
| Sales and marketing expenses | 285,000 | 224,000 | 500,000 |
| General and administrative expenses | 534,000 | 413,000 | 900,000 |
| | ----- | ----- | ----- |
| INCOME (LOSS) FROM OPERATIONS | 226,000 | (250,000) | 300,000 |
| | ----- | ----- | ----- |
| OTHER INCOME (EXPENSE) | | | |
| Interest income | 5,000 | 20,000 | -- |
| Interest expense | (8,000) | -- | (100,000) |
| Other, net | 3,000 | (2,000) | -- |
| | ----- | ----- | ----- |
| TOTAL OTHER INCOME | -- | 18,000 | -- |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) | \$ 226,000 | (\$232,000) | \$ 300,000 |
| | ===== | ===== | ===== |

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| | | | |
|-------------------------------------|------------|------------|----|
| Basic Income (Loss) Per Share | \$.02 | (\$.02) | |
| Diluted Income (Loss) Per Share | \$.02 | (\$.02) | |
| Weighted Average Shares Outstanding | 13,449,000 | 12,251,000 | 13 |

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| For the six month periods ended | September 28, |
|--|---------------|
| ----- | |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net Income (Loss) | \$ 338,000 |
| Adjustments to reconcile net income (loss) to net cash provided by (used by) operating activities: | |
| Depreciation | 156,000 |
| Amortization | 38,000 |
| Provision for doubtful accounts | 8,000 |
| Provision for obsolete inventory | 53,000 |
| Changes in operating assets and liabilities: | |
| Short-term investments | (300,000) |
| Accounts receivable | (263,000) |
| Inventories | 172,000 |
| Prepaid expenses and other current assets | 44,000 |
| Other assets | (29,000) |
| Accounts payable and accrued expenses | (277,000) |
| | ----- |
| Net cash used by operating activities | (60,000) |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Capital expenditures | (131,000) |
| Purchase of selected net assets of Silicon Sensors, LLC | -- |
| | ----- |
| Net cash used by investing activities | (131,000) |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from issuance of stock options | -- |
| Proceeds from exercise of stock options | 46,000 |

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| | |
|--|------------|
| Net cash provided by financing activities | 46,000 |
| NET DECREASE IN CASH & CASH EQUIVALENTS | (145,000) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 902,000 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 757,000 |

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 28, 2003
(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") (See Note 2). 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 generally accepted accounting principles 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 six month period ended September 28, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending March 28, 2004. 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 30, 2003.

NOTE 2 - ACQUISITION

On August 21, 2002, SSI, a newly formed wholly owned subsidiary of API purchased substantially all of the assets and selected liabilities of Silicon Sensors LLC, a closely held manufacturer of opto-electronic semiconductor based components located in Dodgeville, Wisconsin. The purchase price was \$1,718,675 in cash plus the assumption of the Seller's trade accounts payable and accrued liabilities, amounting to approx. \$282,000. The Company incurred \$79,000 of expenses in connection with this acquisition. In addition, the Company entered into a 3 year \$225,000 non-compete agreement with the majority member of Silicon Sensors, LLC and is recording monthly amortization expense of \$6,250.

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On January 17, 2003, the Company purchased all of the issued and outstanding shares of common stock of TOI, a privately owned custom manufacturer of opto-electric components and assemblies. The purchase price was 1,059,110 shares of API Class A Common Stock (issued at \$0.92 per share) and repayment of a debt of TOI in the amount of \$1,200,000 representing principal and interest.

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NOTE 3 - 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 13,428,000 at September 28, 2003 and 12,249,000 at September 29, 2002. 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:

| | Six Months Ended September 28, 2003 | Six Months Ended September 29, 2002 |
|--|--|--|
| | ----- | ----- |
| Average Shares Outstanding | 13,428,000 | 12,249,000 |
| Net Income (Loss) | 338,000 | (255,000) |
| Basic Income (Loss) Per Share | \$ 0.03 | (\$ 0.02) |
| DILUTED | | |
| Average Shares Outstanding | 13,428,000 | 12,249,000 |
| Net Effect of Dilutive Stock Options based on the treasury stock method using average market price | 286,000 | 292,000 |
| Total Shares | 13,714,000 | 12,541,000 |
| Net Income (Loss) | 338,000 | (255,000) |
| Diluted Earnings Per Share | \$ 0.02 | anti-dilutive |
| Average Market Price of Common Stock | \$ 1.14 | \$ 0.98 |
| Ending Market Price of Common Stock | \$ 1.41 | \$ 0.85 |

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 either anti-dilutive or immaterial for the periods reported:

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NOTE 3 - Continued

| Six Months Ended September 28, 2003 | | Six Months Ended September 29, 2002 | |
|-------------------------------------|-----------------------------|-------------------------------------|-----------------------------|
| No. of Shares Underlying Options | Exercise Price Per Share | No. of Shares Underlying Options | Exercise Price Per Share |
| 16,000 | 0.5000 | 12,000 | 0.5000 |
| 56,000 | 0.5630 | 126,000 | 0.5630 |
| 65,000 | 0.6100 | 25,000 | 0.6100 |
| 500 | 0.6250 | 500 | 0.6250 |
| 36,000 | 0.6500 | - | 0.6500 |
| 226,668 | 0.6700 | 416,668 | 0.6700 |
| 5,000 | 0.6875 | 4,000 | 0.6875 |
| 56,000 | 0.7500 | 126,000 | 0.7500 |
| 238,000 | 0.8000 | 266,006 | 0.8000 |
| 77,500 | 0.8600 | 76,250 | 0.8600 |
| - | 1.0000 | 75,000 | 1.0000 |
| 14,900 | 1.1875 | 14,500 | 1.1875 |
| 58,300 | 1.2500 | 74,800 | 1.2500 |
| 4,000 | 1.6250 | 4,000 | 1.6250 |
| 88,000 | 1.8750 | 66,000 | 1.8750 |
| 30,500 | 2.5000 | 35,500 | 2.5000 |
| - | 3.0000 | 8,000 | 3.0000 |
| 1,000 | 3.0940 | 1,000 | 3.0940 |
| 350,000 | 3.1875 | 400,000 | 3.1875 |
| 50,000 | 5.3440 | 50,000 | 5.3440 |
| ----- | | ----- | |
| 1,373,368 | | 1,781,224 | |
| ===== | | ===== | |

Inventories: Inventories consist of the following:

| | September 28, 2003 |
|--|--------------------|
| | ----- |
| Raw materials | \$ 2,572,000 |
| Work in progress | 1,003,000 |
| Finished products | 188,000 |
| | ----- |
| Total inventories | 3,763,000 |
| Less reserve | (852,000) |
| Progress bill and customer prepaid inventory | (508,000) |
| | ----- |
| Inventories, net | \$ 2,403,000 |
| | ===== |

NOTE 4 - NEW ACCOUNTING PRONOUNCEMENTS

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In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standard ("SFAS") 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies EITF Issue 94-3. SFAS 146 is effective for exit and disposal activities that are initiated after December 31, 2002 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, in contrast to the date of an entity's commitment to an exit plan, as required by EITF Issue 94-3. The Company adopted the provisions of SFAS 146 on January 1, 2003.

In December 2002, the FASB issued SFAS 148 "Accounting for Stock-Based Compensation--Transition and Disclosure", an amendment of FASB Statement No. 123 "Accounting for Stock-Based Compensation" This Statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted SFAS 148 on January 1, 2003.

In May 2003 the FASB issued SFAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer of debt or equity classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003.

In January 2003 the FASB issued Interpretation 46 "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation requires a Company to consolidate the financial statements of a "Variable Interest Entity" ("VIE"), sometimes also known as a "special purpose entity", even if the entity does not hold a majority equity interest in the VIE. The Interpretation requires that if a business enterprise has a "controlling financial interest" in a VIE, the assets, liabilities, and results of the activities of the VIE should be included in consolidated financial statements with those of the business enterprise, even if it holds a minority equity position. This Interpretation was effective immediately for all VIE's created after January 31, 2003; for the first fiscal year or interim period beginning after June 15, 2003 for VIE's in which a Company holds a variable interest that it acquired before February 1, 2003.

The adoption of these pronouncements will not have a material effect on the Company's financial position, results from operations or cash flows.

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

The Company's consolidated net product sales for the second quarter ("Q2 04") and six month period ("YTD 04") ended September 28, 2003, were \$3.256 million and \$5.903 million, respectively. Net sales increased by \$1.418 million, or 77%, as compared to the second quarter of the prior year ("Q2 03") and by \$2.517 million, or 74% as compared to the same six month period of the prior year ("YTD 03").

The increase in revenues for both the quarter and year to date periods was due in part to the Company's acquisitions during the past year and was reflected in four of our principal market segments: military/aerospace, industrial sensing, medical and automotive. Sales to the military/ aerospace markets increased by 134% over Q2 03 and by 88% over YTD 03. Similarly, sales to the medical markets increased by 110% and 88% over the same quarter and year to date periods in the prior year. Sales to industrial sensing customers increased 44% for both the quarter and year to date periods and sales to the automotive markets, which were minimal prior to acquisitions, increased 603% and 649% over the Q2 03 and YTD 03 periods, respectively. As a percentage of total year to date revenues, industrial sensing accounts for 39%, military/aerospace for 38%, medical for 15%, and automotive for 7% (compared to 47%, 36%, 14%, and 1% respectively, for the same six month period of the prior year). We continue to expect total sales to increase by approximately 40% in fiscal 2004 as compared to fiscal 2003. However, as the acquisitions of both Silicon Sensors, Inc. and Texas Optoelectronics, Inc. were consummated during the latter half of fiscal 2003 (see Note 2), we expect that the quarter over quarter percentage increases in revenues will decline, as future quarters will be compared to post-acquisition sales, rather than pre-acquisition revenues reported during the first six months of fiscal 2003. In addition, sales may vary significantly on a quarter to quarter basis due to changes in customer delivery and production schedules.

COSTS AND EXPENSES

Cost of product sales increased by \$824,000 (63%) during Q2 04 and by \$1.682 million (76%) during YTD 04 as compared to Q2 03 and YTD 03, respectively. As a result of increased revenues, cost of goods sold stated as a percentage of net sales decreased to 65% during Q2 04, as compared to 71% in Q2 03. For the year over year comparison, cost of sales remained flat at 66%, resulting in year to date gross margin of 34%. The Company finalized the closing of the Texas Optoelectronics location during the first quarter of fiscal 2004 and has fully completed the integration of that business into its California and Wisconsin facilities. As a result, the current cost of sales includes all of the fixed and

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variable expenses associated with operating two facilities and the Company expects that the year to date gross margin stated as a percentage of sales is indicative of what can be expected for the remainder of the fiscal year and may improve slightly as revenues increase, allowing for the absorption of more fixed expenses.

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Research and development costs decreased by \$64,000 (44%) to \$80,000 in Q2 04 as compared to Q2 03, and by \$129,000 (45%) year to date. The decrease in R&D costs continues to be due to the Company's execution of its plan to restructure the R&D department, with the focus being placed on those projects which offer higher commercial potential. During the remainder of the fiscal year, the Company expects to see continued decreases in R&D expenditures, similar to what has been experienced year to date, and expects that quarterly R&D expenses will approximate the amounts recognized in the first and second quarters of fiscal 2004. However, R&D costs may fluctuate, should the level of activity associated with new product development projects or customer-requested development contracts change significantly.

Marketing and sales expenses increased by \$61,000 (27%) to \$285,000 in Q2 04 compared to Q2 03 and by \$70,000 (15%) to \$527,000 in YTD 04 compared to YTD 03. As a percentage of sales, marketing and sales expenses represent 9% of total revenue for both the quarterly and year to date periods, as compared to 12% for Q2 03 and 14% for YTD 03. As expected, the increases realized for both the quarter and year to date periods are primarily due to increased salary, commission and travel expenses over fiscal 2003. Subsequent to its acquisitions, the Company implemented plans to consolidate the marketing and sales departments and coordinate its efforts between facilities. Thus, as certain expenses were expected to increase, they have been more than offset by savings realized through consolidation. As with R&D expenses, the Company expects that marketing and sales expenses for the remainder of fiscal 2004 will approximate the amounts recognized during the first half of the year and will continue to represent approximately 9% of total revenues.

General and administrative expenses increased by \$121,000 (29%) to \$534,000 in Q2 04 as compared to Q2 03. Year to date, general and administrative expenses increased by \$257,000 (36%) to \$977,000 as compared to the same six month period of fiscal 2003. As with marketing and sales expenses, the Company has achieved general and administrative savings through consolidation and coordination of its subsidiaries and, expressed as a percentage of net sales, general and administrative expenses decreased to 16% for both the quarterly and year to date periods, as compared to 23% and 21% in Q2 03 and YTD 03, respectively. The net increases in general and administrative expenses for both the quarterly and year to date periods are primarily due to increased salary, depreciation, insurance and outside service/consultant expenses over the same periods in the prior year, and represent additional costs absorbed through acquisition which have been offset with savings through consolidation. The Company expects that general and administrative expenses will increase only slightly throughout the remainder of the fiscal year and will continue to approximate 16% of net revenues.

The Company reported net income of \$226,000 and \$338,000 for Q2 04 and YTD 04, respectively, as compared to net losses of (\$232,000) and (\$255,000) for Q2 03 and YTD 03, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

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At September 28, 2003, the Company had cash, cash equivalents and short term investments of \$2.5 million, working capital of \$5.2 million, and an accumulated deficit of \$18.4 million. The Company's cash and cash equivalents decreased by \$145,000 during the six months ended September 28, 2003. Cash obtained through operating activities totaled \$240,000 before transferring \$300,000 to short term investments. Operating cash flow was significantly impacted by increases in accounts receivable and reductions in accounts payable which were offset by reductions in cash outlays for inventory and prepaid expenses and other non cash items. \$46,000 was obtained through the exercise of stock options and \$131,000 was used for capital expenditures, due primarily to computer and manufacturing equipment upgrades.

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 transferred the majority of its available cash reserves from longer term investment instruments to such accounts during the past year. At September 28, 2003, the Company held \$1.7 million in a highly liquid equity fund account which carries an average interest rate of 1.2%. During 2004, 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.

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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Items 1 - 3
None.

Item 4 Submission of Matters to a Vote of Security Holders

The Company's Annual Stockholders Meeting was held on August 22, 2003. The following persons were re-elected to the Company's Board of Directors to serve until the next Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified.

| | FOR ----- | WITHHELD ----- |
|----------------------|--------------|-------------------|
| Richard D. Kurtz | 11,673,801 | 213,220 |
| M. Scott Farese | 11,700,737 | 186,284 |
| Ward Harper | 11,649,587 | 237,434 |
| Stephen P. Soltwedel | 11,695,387 | 191,634 |

Item 5 Other Information

None.

Item 6 Exhibits and Reports on Form 8-K

(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 August 13, 2003 to report that it had issued a press release dated August 12, 2003 announcing financial results for the quarter ended June 29, 2003.

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

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undersigned thereunto duly authorized.

Advanced Photonix, Inc.
(Registrant)

Date: November 11, 2003

/s/ Richard D. Kurtz

Richard D. Kurtz
Chairman, Chief Executive Officer
and Director

/s/ Susan A. Schmidt

Susan A. Schmidt
Chief Financial Officer and Secretary

/s/ Paul D. Ludwig

Paul D. Ludwig
President