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ADVANCED PHOTONIX INC
Form 10QSB
November 07, 2001

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 23, 2001

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 5, 2001, 12,211,648 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.

BALANCE SHEET AT SEPTEMBER 23, 2001 (UNAUDITED)

| | |
|--|--------------|
| ----- | |
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 4,793,000 |
| Accounts receivable, less allowance of \$6,000 | 1,123,000 |
| Inventories | 2,231,000 |
| Prepaid expenses and other current assets | 86,000 |
| | ----- |
| Total Current Assets | 8,233,000 |
| | ----- |
| EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost | 3,575,000 |
| Less accumulated depreciation and amortization | (2,923,000) |
| | ----- |
| Total Equipment and Leasehold Improvements | 652,000 |
| | ----- |
| OTHER ASSETS | |
| Goodwill, net of accumulated amortization of \$336,000 | 500,000 |
| Patents, net of accumulated amortization of \$39,000 | 25,000 |
| Other | 24,000 |
| | ----- |
| Total Other Assets | 549,000 |
| | ----- |
| TOTAL ASSETS | \$ 9,434,000 |
| | ===== |

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ADVANCED PHOTONIX, INC.

BALANCE SHEET - Continued
 AT SEPTEMBER 23, 2001
 (UNAUDITED)

| | |
|---|--------------|
| ----- | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| CURRENT LIABILITIES | |
| Accounts payable | \$ 246,000 |
| Accrued expenses: | |
| Salaries and employee benefits | 208,000 |
| Other | 207,000 |
| | ----- |
| Total Current Liabilities | 661,000 |
| | ----- |
| COMMITMENTS AND CONTINGENCIES | |
| Class A redeemable convertible preferred stock, \$.001 par value; 780,000 shares authorized; 40,000 shares issued and outstanding | 32,000 |
| 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 | -- |
| Class A common stock, \$.001 par value; 50,000,000 shares authorized; 12,211,648 shares issued and outstanding | 12,000 |
| Class B common stock, \$.001 par value; 4,420,113 shares authorized; 31,691 shares issued and outstanding | -- |
| Additional paid-in capital | 26,576,000 |
| Accumulated Deficit | (17,847,000) |
| | ----- |
| Total Shareholders' Equity | 8,773,000 |
| | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 9,434,000 |
| | ===== |

See notes to financial statements.

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ADVANCED PHOTONIX, INC.

STATEMENTS OF OPERATIONS
 (UNAUDITED)

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| | Three Months Ended | | September 23, 2001 |
|---|--------------------|--------------------|--------------------|
| | September 23, 2001 | September 24, 2000 | |
| SALES | \$1,809,000 | \$1,768,000 | \$3,000,000 |
| Cost of goods sold | 1,100,000 | 1,138,000 | 2,000,000 |
| GROSS PROFIT | 709,000 | 630,000 | 1,000,000 |
| Research and development expenses | 124,000 | 126,000 | |
| Marketing and sales expenses | 214,000 | 246,000 | |
| General and administrative expenses | 295,000 | 301,000 | |
| Acquisition investigation expenses | 630,000 | -- | |
| INCOME (LOSS) FROM OPERATIONS | (554,000) | (43,000) | (1,000,000) |
| OTHER INCOME | | | |
| Interest income | 48,000 | 72,000 | |
| Other, net | (2,000) | (4,000) | |
| TOTAL OTHER INCOME | 46,000 | 68,000 | |
| NET INCOME (LOSS) | (\$ 508,000) | \$ 25,000 | (\$ 1,000,000) |
| Basic and Diluted Earnings (Loss) Per Share | (\$.04) | \$.00 | |
| Weighted Average Shares Outstanding | 12,242,000 | 12,223,000 | 12,000,000 |

See notes to financial statements.

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ADVANCED PHOTONIX, INC.

STATEMENTS OF CASH FLOWS
(UNAUDITED)

| For the six month periods ended | September 23, 2001 |
|---|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net Income (Loss) | (\$ 153,000) |
| Adjustments to reconcile net income to net cash provided by | |

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| | |
|--|--------------|
| (used by) operating activities: | |
| Depreciation | 104,000 |
| Amortization | 17,000 |
| Write off of prepaid acquisition costs, net of \$200,000 cash expended | 430,000 |
| Changes in assets and liabilities: | |
| Short-term investments | 1,082,000 |
| Accounts receivable | 44,000 |
| Inventories | (504,000) |
| Prepaid expenses and other current assets | 47,000 |
| Other assets | (1,000) |
| Accounts payable and accrued expenses | 137,000 |
| | ----- |
| Net cash provided by (used by) operating activities | 1,203,000 |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Capital expenditures | (320,000) |
| Prepaid acquisition costs | -- |
| | ----- |
| Net cash provided by (used by) investing activities | (320,000) |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from exercise of stock options | 3,000 |
| | ----- |
| Net cash provided by financing activities | 3,000 |
| | ----- |
| NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | 886,000 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 3,907,000 |
| | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 4,793,000 |
| | ===== |

See notes to financial statements.

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ADVANCED PHOTONIX, INC.
NOTES TO FINANCIAL STATEMENTS
September 23, 2001
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

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The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X and Regulation S-B. 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 23, 2001, are not necessarily indicative of the results that may be expected for the fiscal year ending March 24, 2002. 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 25, 2001.

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 12,240,000 at September 23, 2001 and 12,154,000 at September 24, 2000. 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. "Diluted" net income (loss) per share has not been presented in the financial statements as the impact is either not material or anti-dilutive. The impact of Statement 128 on the calculation of earnings per share is as follows:

| BASIC | Six Months Ended September 23, 2001 |
|----------------------------|--|
| Average Shares Outstanding | 12,240,000 |
| Net Loss | (153,000) |
| Basic Loss Per Share | (\$ 0.01) |

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NOTE 2 - Continued

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

| No. of Shares Underlying Options | Exercise Price Per Share |
|-------------------------------------|-----------------------------|
| 8,000 | .5000 |
| 88,000 | .5630 |
| 500 | .6250 |
| 3,000 | .6875 |
| 88,000 | .7500 |
| 50,000 | 1.0000 |
| 13,900 | 1.1875 |
| 59,200 | 1.2500 |
| 4,000 | 1.5000 |

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| | |
|---------|--------|
| 4,000 | 1.6250 |
| 44,000 | 1.8750 |
| 35,600 | 2.5000 |
| 8,000 | 3.0000 |
| 500 | 3.0940 |
| 400,000 | 3.1875 |
| 25,000 | 5.3440 |
| ----- | ----- |
| 831,700 | |
| ===== | ===== |

Inventories: Inventories consist of the following:

| | |
|-------------------|--------------------|
| | September 23, 2001 |
| | ----- |
| Raw materials | \$ 610,000 |
| Work in progress | 1,301,000 |
| Finished products | 320,000 |
| | ----- |
| | \$ 2,231,000 |
| | ===== |

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Item 2. Management's Discussion and Analysis

RESULTS OF OPERATIONS

NET PRODUCT SALES

The Company's net product sales for the second quarter ("Q2 02") and six month period ("YTD 02") ended September 23, 2001, were \$1.8 million and \$3.6 million, respectively. As compared to the second quarter and six month period of the prior year ("Q2 01" and "YTD 01"), net sales increased by 2% and 6%, respectively.

The increase in net revenues for the quarter was primarily due to higher volume in the military aerospace market, which was partially offset by a reduction in revenues from the industrial sensing market. Sales to the military aerospace markets increased by approximately 47% for Q2 02 and 25% for YTD 02 when compared to the same periods in the prior year. Total revenues from the military aerospace market accounted for 48% of total revenues for Q2 02 and 39% of total revenues for YTD 02, as compared to 33% for both Q2 01 and YTD 01. On an ongoing basis, the Company has continued to compete for military aerospace contracts, which are dependent on funding from the United States government. The Company attributes its recent increases in military aerospace revenues to improved competitiveness and overall increases in government spending. Although military revenues have fluctuated significantly in the past, the Company anticipates continued increases in military aerospace revenues as additional government military programs are approved.

In addition to the military aerospace market, the Company has seen continued increases in the medical equipment and imaging markets. As compared to YTD 01, sales to the medical markets increased by 73% for YTD 02 and accounted for 18% of total revenues, as compared to 11% of total revenues in the prior year. Continuous improvements made by medical equipment manufacturers in technology

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and design have resulted in increased demand for the Company's products in those markets. The Company attributes the increased demand to its custom design capabilities and the ability to design components which can be easily adapted to the rapidly changing requirements of the marketplace.

COSTS AND EXPENSES

Cost of product sales decreased by \$38,000 (3%) during Q2 02 and by \$82,000 (4%) during YTD 02 as compared to Q2 01 and YTD 01, respectively. As a result, gross profit margin increased by 3 percentage points to 39% in Q2 02 as compared to Q2 01 and by 6 percentage points to 45% for YTD 02 as compared to YTD 01. A number of factors are responsible for the improved margins, including greater efficiencies of scale associated with higher sales volume and the effects of several cost cutting measures implemented by the Company in an effort to streamline the manufacturing process and reduce production overhead.

Research and development costs decreased only slightly (2%) in Q2 02 as compared to Q2 01. Year to date, research and development costs have increased by \$19,000 (8%) compared to the prior year. The increase year to date is primarily due to variable expenditures associated with current development projects, including the continual improvement of the Company's current line of LAAPD and core business products. As described in the past, R&D costs may continue to vary significantly, due to the level of activity associated with development contracts as well as the number and complexity of new process and product development projects, the qualification of new process developments and customer evaluation and acceptance of new products.

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Marketing and sales expenses decreased by \$32,000 (13%) to \$214,000 in Q2 02 compared to Q2 01 and by \$2,000 (