

Edgar Filing: ADVANCED PHOTONIX INC - Form 10QSB

ADVANCED PHOTONIX INC
Form 10QSB
August 07, 2002

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 30, 2002

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 2, 2002, 12,219,648 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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periods ended June 30, 2002 and June 24, 2001

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ADVANCED PHOTONIX, INC.

BALANCE SHEET
AT JUNE 30, 2002
(UNAUDITED)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	2,
Short term investments		1,
Accounts receivable, less allowance of \$33,000		1,
Inventories		2,
Prepaid expenses and other current assets		-----

Total Current Assets		7,-----
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EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost

Less accumulated depreciation and amortization

Equipment and Leasehold Improvements, net		3,----- (3,-----)
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OTHER ASSETS

Goodwill, net of accumulated amortization of \$353,000

Patents, net of accumulated amortization of \$41,000

Other

Total Other Assets		-----
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TOTAL ASSETS	\$	9,----- =====
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ADVANCED PHOTONIX, INC.

BALANCE SHEET - Continued
 AT JUNE 30, 2002
 (UNAUDITED)

 LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$
Accrued expenses:	
Salaries and employee benefits	
Other	

Total Current Liabilities	-----

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	
Class A common stock, \$.001 par value; 50,000,000 shares authorized; 12,219,648 shares issued and outstanding	
Class B common stock, \$.001 par value; 4,420,113 shares authorized; 31,691 shares issued and outstanding	
Additional paid-in capital	26,
Accumulated Deficit	(18,

Total Shareholders' Equity	8,

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 9, =====

See notes to financial statements.

ADVANCED PHOTONIX, INC.

STATEMENTS OF OPERATIONS
 (UNAUDITED)

For the three month periods ended	June 30, 2002	June 24, 2001
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SALES	\$ 1,548,000	\$ 1,831,000
Cost of Goods Sold	916,000	918,000
GROSS PROFIT	632,000	913,000
Research and development expenses	142,000	130,000
Sales and marketing expenses	234,000	256,000
General and administrative expenses	307,000	261,000
INCOME (LOSS) FROM OPERATIONS	(51,000)	266,000
OTHER INCOME		
Interest income	28,000	89,000
NET INCOME (LOSS)	(\$ 23,000)	\$ 355,000
Basic and Diluted Earnings Per Share	(\$ 0.00)	\$ 0.03
Weighted Average Shares Outstanding	12,247,000	12,239,000

See notes to financial statements.

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ADVANCED PHOTONIX, INC.

STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the three month periods ended	June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	\$ (23,000)
Adjustments to reconcile net income to net cash provided by (used by) operating activities:	
Depreciation	49,000
Amortization	1,000
Changes in assets and liabilities:	
Short-term investments	--
Accounts receivable	236,000
Inventories	(242,000)
Prepaid expenses and other current assets	(21,000)
Other assets	--
Accounts payable and accrued expenses	(124,000)
Net cash provided by (used by) operating activities	(124,000)

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CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(20,000)
Prepaid acquisition costs	--

Net cash used by investing activities	(20,000)

CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from exercise of stock options	5,000

Net cash provided by financing activities	5,000

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(139,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,083,000

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,944,000
	=====

See notes to financial statements.

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ADVANCED PHOTONIX, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

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 three month period ended June 30, 2002, are not necessarily indicative of the results that may be expected for the fiscal year ending March 30, 2003. 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 31, 2002.

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 12,247,000 at June 30, 2002 and 12,239,000 at June 24, 2001. 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:

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	Three Months Ended June 30, 2002 -----	Three Months Ended June 24, 2001 -----
BASIC		
Average Shares Outstanding	12,247,000	12,239,000
Net Income (Loss)	(23,000)	355,000
Basic Earnings (Loss) Per Share	(\$.00)	\$ 0.03
DILUTED		
Average Shares Outstanding	12,247,000	12,239,000
Net Effect of Dilutive Stock Options based on the treasury stock method using average market price	236,800	66,500
Total Shares	12,483,800	12,305,500
Net Income (Loss)	(23,000)	355,000
Diluted Earnings Per Share	anti-dilutive	\$ 0.03
Average Market Price of Common Stock	\$ 1.168	\$ 0.986
Ending Market Price of Common Stock	\$ 1.000	\$ 0.920

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NOTE 2 - Continued

 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:

Three Months Ended June 30, 2002 -----		Three Months Ended June 24, 2001 -----	
No. of Shares Underlying Options -----	Exercise Price Per Share -----	No. of Shares Underlying Options -----	Exercise Price Per Share -----
12,000	0.5000	8,000	0.5000
130,000	0.5630	92,000	0.5630
500	0.6250	500	0.6250
4,000	0.6875	3,000	0.6875
130,000	0.7500	92,000	0.7500
266,006	0.8000	-	0.8000
75,000	0.8600	-	0.8600
75,000	1.0000	50,000	1.0000
13,900	1.1875	13,300	1.1875
78,800	1.2500	65,200	1.2500
4,000	1.5000	4,000	1.5000
4,000	1.6250	2,000	1.6250
66,000	1.8750	44,000	1.8750
35,500	2.5000	43,100	2.5000
8,000	3.0000	4,000	3.0000
1,000	3.0940	500	3.0940
400,000	3.1875	400,000	3.1875
50,000	5.3440	25,000	5.3440
-----	-----	-----	-----
1,353,706		846,600	
=====		=====	

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Inventories: Inventories consist of the following:

	June 30, 2002
Raw materials	\$ 2,041,000
Work in progress	1,024,000
Finished products	170,000
Total inventories	3,235,000
Less reserve	(422,000)
Inventories, net	\$ 2,813,000

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standard No.142 , "Goodwill and Other Intangible Assets" ("SFAS No. 142") was issued in July 2001. It requires that goodwill no longer be amortized, but tested for impairment on an annual basis. SFAS No. 142 was effective for financial statements for fiscal years beginning after December 31, 2001. Accordingly, the Company adopted the provisions of SFAS 142 in the current fiscal year and has ceased monthly amortization of intangible assets with an indefinite life.

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Item 2. Management's Discussion and Analysis

RESULTS OF OPERATIONS

NET PRODUCT SALES

Net product sales for the first quarter of fiscal year 2003 ("Q1 03") were \$1,548,000, a decrease of \$283,000 or 15% from revenues of \$1,831,000 for the first quarter of fiscal year 2002 ("Q1 02").

Compared to Q1 02, the decrease in net revenues for the period was primarily due to decreased sales to companies in the medical equipment and medical imaging markets. Sales to customers in these markets can fluctuate significantly between quarters, due to variances in customer delivery schedules. The Company expects that for the full year over year, it will continue to experience steadily increasing sales to the medical markets. Sales to the medical markets in Q1 03 represented 10% of total net sales, as compared to 21% in Q1 02. Sales to the military and aerospace markets remained stable for Q1 03, comprising 34% of total net sales for the period, as compared to 31% for the same period of the prior year. While the Company continues to anticipate increasing volume from sales of its proprietary LAAPD products, it continues to expect more rapid growth to be seen in the sales of its commercial and core product lines, particularly to the medical and military segments, during the remainder of fiscal year 2003.

COSTS AND EXPENSES

Cost of product sales decreased only slightly, by \$2,000 in Q1 03 compared to Q1 02. Consequently, due to decreased revenues in the current quarter, cost of product sales as a percentage of net sales increased by 9% and gross profit margin on net product sales decreased 9 percentage points to 41% as compared to 50% in Q1 02. As the Company must maintain certain fixed overhead costs, the current gross margin is indicative of what can be expected at the current sales levels and expects the gross margin percentages to improve as revenues increase.

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Research and development costs increased by \$12,000 (9%) to \$142,000 in Q1 03 as compared to Q1 02. The increase in R&D costs 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 they have in the past, R&D costs may continue to vary significantly, due to the level of activity associated with development contracts as well as product improvement and/or new product development projects.

Marketing and sales expenses decreased by \$22,000 (9%) to \$234,000 in Q1 03 as compared to Q1 02. The decrease in marketing and sales expense is primarily due to reductions in both recruitment and travel expenses as compared to the prior year. The Company does not anticipate any major fluctuations in sales and marketing expenses and expects that they will remain at approximately the same levels for the remainder of the year.

General and administrative expenses increased by \$46,000 (18%) to \$307,000 in Q1 03 as compared to \$261,000 in Q1 02. The increase in general and administrative expenses is primarily due to increased insurance and depreciation expenses over the same period in the prior year. The Company has continued to see increases in both liability and benefits-type insurances and expects that such increases will continue throughout the remainder of the year. The increase in depreciation expense is the result of the purchase of a new enterprise resource planning (ERP) software system which was installed during the third quarter of last year. In addition, the Company reported increased expenses associated with legal fees and Board of Directors' fees, which are primarily the result of timing differences between the two periods.

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Interest income in Q1 03 was \$28,000, or \$61,000 less than the \$89,000 reported in Q1 02. The decrease in interest income is due primarily to continually declining interest rates seen during the past year in addition to lower cash reserves available for investment.

Net loss for Q1 03 was (\$23,000), as compared to net income of \$355,000 for Q1 02.

FINANCIAL CONDITION

At June 30, 2002, the Company had cash, cash equivalents and short term investments of \$3.9 million, working capital of \$7.5 million, and an accumulated deficit of \$18.0 million. The Company's cash, cash equivalents and short-term investments decreased by \$139,000 during the three months ended June 30, 2002. \$5,000 was obtained through the exercise of stock options and \$124,000 was used by operating activities. Operating expenditures were impacted by cash outlays used to purchase inventory and reduce accounts payable, both of which were partially offset by cash flow resulting from the collections of outstanding accounts receivable.

Cash of \$20,000 was used for capital equipment, compared to \$135,000 during the same period of the prior year. All capital expenditures during the current quarter were due to necessary equipment upgrades and/or replacements. The Company does not anticipate any major cash outlays for capital items during the remainder of the year, as there are no significant capital equipment purchases scheduled at this time.

The Company is exposed to interest rate risk for marketable securities. Due to declining interest rates available to the Company pursuant to its investment

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policy, the Company was able to achieve higher yields on more liquid money market accounts and thus transferred the majority of its available cash reserves from short term investment instruments to such accounts during the prior fiscal year. At June 30, 2002, the Company continued to hold one investment in a U.S. Government security with a value of \$1,000,000 which carries an interest rate of 5.0%. The Company will continue to monitor available interest rates throughout the remainder of the year and will attempt to utilize the best possible avenues of investment for its excess liquid assets.

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, 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 (particularly its LAAPD product line), 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

(a) Exhibits

99.1 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

None

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 7, 2002

/s/ Susan A. Schmidt

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Susan A. Schmidt
Chief Financial Officer and Secretary

Date: August 7, 2002

/s/ Brock Koren

Brock Koren
President & Chief Executive Officer