ADVANCED PHOTONIX INC
Form 10-Q
November 13, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2006

OR

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

Commission file number 1-11056

ADVANCED PHOTONIX, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0325826**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2925 Boardwalk
Ann Arbor, Michigan 48104
(Address of principal executive offices)
(734) 864-5600
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

o Large accelerated filer o Accelerated filer þ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of November 9, 2006 there were 19,059,006 shares of Class A Common Stock, $.001 par value, and 31,691 shares of Class B Common Stock, $.001 par value outstanding.

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EXPLANATORY NOTE

Convertible Promissory Notes Payable

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios (EITF 98-5), the Company recognized an embedded beneficial conversion feature present in the Convertible Note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of $3,165,000 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Notes.

In connection with the placement of the Convertible Notes in October 2004, September 2005 and March 2006, the Company issued detachable warrants granting the holders the right to acquire 1,446,398 shares of the Company s common stock at $1.78 per share. The warrants expire five years from the date of registration. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF -0027), the Company recognized the value attributable to the warrants in the amount of $1,881,000 to additional paid-in capital and a discount against the Convertible Notes. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.9%, a dividend yield of 0%, and volatility of 72%, 52% and 52%, respectively.

The debt discount attributed to the beneficial conversion feature and value of the warrants issued is amortized over the Convertible Note s maturity period (three year) as interest expense. In Q2 & Q3 of FY 2006, $3,475,000 and $1,000,000, respectively of the Convertible Notes were converted to the Company s common stock, and accordingly, that portion of the un-amortized debt discount was charged to interest expense. Additionally, in FY 2006, the un-amortized debt discount of $331,000 on the warrants associated with the convertible notes was charged to interest expense.

The Company recorded non-cash interest expense in the amount of $346,000 during the three month period ended September 29, 2006 in connection with the Convertible Notes discount compared to the comparable prior year quarter of $790,000. For the six month periods ended September 29, 2006 and September 25, 2005, the Company recorded non-cash interest expense in the amount of $640,000 and $891,000, respectively.

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The changes to the Statement of Operations as of and for the quarter ended September 25, 2005 are as follows:

Consolidated Statement of Operations	**As Reported**	**Restated**
Interest expense, warrant fair value		(790,000)
Net Income (Loss)	(834,000)	(1,624,000)
Basic earnings (loss) per share	$ (0.05)	$ (0.09)
Diluted earnings (loss) per share	$ (0.05)	$ (0.09)

The changes to the Statement of Operations as of and for the six month period ended September 25, 2005 are as follows:

Consolidated Statement of Operations	**As Reported**	**Restated**
Interest expense, warrant fair value		(891,000)
Net Income (Loss)	(968,000)	(1,859,000)
Basic earnings (loss) per share	$ (0.06)	$ (0.11)
Diluted earnings (loss) per share	$ (0.06)	$ (0.11)

The changes to the Balance Sheet as of and for the year ended March 31, 2006 are as follows:

Balance Sheet	**As Reported**	**Restated**
Long-term debt, less current portion	6,132,000	5,002,000
Total liabilities	13,668,000	12,538,000
Additional paid-in capital	40,478,000	43,581,000
Accumulated deficit	(16,196,000)	(18,169,000)
Total shareholders equity	24,301,000	25,431,000

ADVANCED PHOTONIX, INC.
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Certification of Chief Financial Officer pursuant to rules 13a-15(e)/15d-15(e)
Certification of Chief Executive Officer pursuant to rules 13a-15(e)/15d-15(e)
Section 906 Certification of Chief Executive Officer
Section 906 Certification of Chief Financial Officer

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Advanced Photonix, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 29, 2006	March 31, 2006 Restated
Assets		
Current assets:		
Cash and cash equivalents	$ 4,784,000	$ 5,933,000
Accounts receivable, net	3,460,000	4,387,000
Inventory, net	3,826,000	3,434,000
Prepaid expenses and other current assets	611,000	711,000
Total current assets	12,681,000	14,465,000
Equipment and leasehold improvements, net	3,683,000	3,375,000
Goodwill, net of accumulated amortization of $353,000 for September 29, 2006 and March 31, 2006	4,719,000	4,719,000
Intangibles and patents, net	13,643,000	14,355,000
Other assets	1,023,000	1,087,000
Total assets	$ 35,749,000	$ 38,001,000
Liabilities and shareholders equity		
Current liabilities		
Line of credit	$ 1,000,000	$ 1,000,000
Accounts payable and accrued expenses	1,635,000	1,934,000
Compensation and related withholdings	1.109,000	697,000
Deferred income		77,000
Current portion of long-term debt, related party	550,000	500,000
Current portion of long-term debt	1,505,000	927,000
Total current liabilities	5,799,000	5,135,000
Long-term debt, less current portion	4,624,000	5,002,000
Long-term debt, less current portion related party	1,851,000	2,401,000
Total liabilities	12,274,000	12,538,000
Commitments and contingencies:		
Class **A** redeemable convertible preferred stock, $.001 par value; 780,000 shares authorized; 2006 and 2005 - 40,000 shares issued and outstanding; liquidation preference $32,000	32,000	32,000
Shareholders equity:		
Preferred stock no shares issued and outstanding		

Class A common stock, $.001 par value, 50,000,000 authorized; September 29, 2006 19,042,006 shares issued and outstanding, March 31, 2006 18,885,006 shares issued and outstanding.	19,000	19,000
Class B common stock, $.001 par value; 4,420,113 shares authorized, September 29, 2006 and March 31, 2006 - 31,691 issued and outstanding.		
Additional paid-in capital	43,950,000	43,581,000
Accumulated deficit	(20,526,000)	(18,169,000)
Total shareholders equity	23,443,000	25,431,000
Total liabilities and shareholders equity	$ 35,749,000	$ 38,001,000

See notes to condensed consolidated financial statements.

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Advanced Photonix, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 29, 2006	September 25, 2005 Restated	September 29, 2006	September 25, 2005 Restated
Sales, net	$ 5,878,000	$ 5,193,000	$ 11,546,000	$ 10,271,000
Cost of products sold	2,997,000	3,077,000	6,189,000	5,999,000
Gross profit	2,881,000	2,116,000	5,357,000	4,272,000
Operating expenses:				
Research and development expenses	1,019,000	802,000	1,988,000	1,247,000
Sales, general and administrative expenses	2,353,000	1,962,000	4,564,000	3,638,000
Total operating expenses	3,372,000	2,764,000	6,552,000	4,885,000
Income (loss) from operations	(491,000)	(648,000)	(1,195,000)	(613,000)
Other income (expense):				
Interest income	59,000	7,000	116,000	14,000
Interest expense	(208,000)	(140,000)	(410,000)	(262,000)
Interest expense, warrant fair value	(346,000)	(790,000)	(640,000)	(891,000)
Interest expense, related party	(55,000)	(51,000)	(112,000)	(100,000)
Other income (expense)	(83,000)	(2,000)	(116,000)	(7,000)
Net income (loss)	$ (1,124,000)	$ (1,624,000)	$ (2,357,000)	$ (1,859,000)
Basic and diluted loss per share	$ (0.06)	$ (0.09)	$ (0.12)	$ (0.11)
Weighted average common shares outstanding				
Basic and diluted	19,026,000	17,252,000	19,003,000	16,192,000

See notes to condensed consolidated financial statements.

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Advanced Photonix, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

For the six months ended:	September 29, 2006	September 25, 2005 Restated
Cash flows from operating activities:		
Net loss	$ (2,357,000)	$ (1,859,000)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	1,303,000	1077,000
Stock compensation	183,000	
Amortization convertible note discount	640,000	891,000
Other provisions	63,000	
Changes in operating assets and liabilities:		
Accounts receivable	930,000	176,000
Inventories	(455,000)	(30,000)
Prepaid expenses and other assets	97,000	(17,000)
Accounts payable and other liabilities	16,000	(687,000)
Net cash provided by (used in) operating activities	420,000	(449,000)
Cash flows from investing activities:		
Capital expenditures	(782,000)	(155,000)
Patent expenditures	(50,000)	(66,000)
Cash paid for Picotronix, Inc. acquisition		(3,500,000)
Cash acquired through acquisition of Picotronix, Inc.		678,000
Cash paid for acquisition related costs		(936,000)
Net cash used in investing activities	(832,000)	(3,979,000)
Cash flows from financing activities:		
Proceeds from bank term loan		2,700,000
Payments on bank term loan	(450,000)	
Payments on notes payable		(488,000)
Payments on notes payable related party	(500,000)	
Proceeds from placement of convertible note		1,000,000
Proceeds from exercise of warrants		303,000
Proceeds from exercise of stock options	213,000	164,000
Net cash provided by (used in) financing activities	(737,000)	3,679,000
Net decrease in cash and cash equivalents	(1,149,000)	(749,000)

Cash and cash equivalents at beginning of year	5,933,000	2,757,000
Cash and cash equivalents at end of quarter	$ 4,784,000	$ 2,008,000
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$	$
Cash paid for interest	$ 273,000	$ 204,000

See notes to condensed consolidated financial statements.

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Advanced Photonix, Inc.
Notes to Condensed Consolidated Financial Statements
September 29, 2006

Note 1. Basis of Presentation

Business Description

General Advanced Photonix, Inc. (the Company or API), was incorporated under the laws of the State of Delaware in June 1988. API is a leading supplier of custom optoelectronic solutions, high-speed optical receivers and Terahertz sensors and instrumentation, serving a variety of global Original Equipment Manufacturer (OEM) markets including telecommunications, military/aerospace, industrial sensing/NDT, medical and homeland security. Our optoelectronic solutions are based on our silicon Large Area Avalanche Photodiode (LAAPD), PIN photodiode and FILTRODE® detectors. Our patented high-speed optical receivers include Avalanche Photodiode technology (APD) and PIN (positive-intrinsic-negative) photodiode technology based upon III-V materials, including InP, InAlAs, and GaAs. Our newly emerging Terahertz sensor product line is targeted to the industrial non-destructive testing (NDT), quality control, homeland security and military markets. Using our patented fiber coupled technology and high speed Terahertz generation and detection sensors, we are engaged in transferring Terahertz technology from the application development laboratory to the factory floor. We have three manufacturing facilities, one in Camarillo, CA, one in Dodgeville, WI and one in Ann Arbor, MI.

The accompanying un-audited condensed consolidated financial statements include the accounts of the Company and the Company s wholly owned subsidiaries, Silicon Sensors Inc. (SSI), Texas Optoelectronic, Inc. (TOI), Photonic Detectors, Inc. (PDI) and Picometrix, LLC (Picometrix). The un-audited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. All material inter-company accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. Operating results for the six-month period ended September 29, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2007. For further information, refer to the financial statements and notes thereto included in the Advanced Photonix, Inc. Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

Note 2. Changes in Significant Accounting Policies

Stock Compensation Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment: An Amendment of FASB Statements No. 123 and 95 using the modified prospective method. Under this method, compensation cost is recognized on or after the effective date for the portion of outstanding awards, for which the requisite service has not yet been rendered, based on the grant date fair value of those awards. Prior to April 1, 2006, the Company accounted for employee stock options using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25 (APB No. 25), Accounting for Stock Issued to Employees, and adopted the disclosure only alternative of SFAS No. 123. For stock-based awards issued on or after April 1, 2006, the Company recognizes the compensation cost on a straight-line basis over the requisite service period for the entire award. Measurement and attribution of compensation cost for awards that are unvested as of the effective date of SFAS No. 123(R) are based on the same estimate of the grant-date or modification-date fair value and the same attribution method used previously under SFAS No. 123.

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In accordance with SFAS No. 148, and as required by SFAS 123(R), the required pro forma disclosure, for periods prior to adoption of SFAS 123(R), is shown below:

	Three months ended September 25, 2005 Restated	Six months ended September 25, 2005 Restated
Net Income (loss) , as reported	$ (1,624,000)	$ (1,859,000)
Net income (loss), proforma	$ (1,724,000)	$ (2,012,000)
Basic income (loss) per share, as reported	$ (0.09)	$ (0.11)
Basic income (loss) per share, proforma	$ (0.10)	$ (0.12)

Adoption of SFAS 123(R)

During the three months ended September 29, 2006, the Company granted 30,000 stock options with an estimated total grant-date fair value of $51,000. Of these amounts, the Company estimated that the stock-based compensation for the awards not expected to vest was zero. During the three months ended September 29, 2006, the Company recorded stock-based compensation related to stock options of $66,000 for all unvested options granted prior to and options granted after the adoption of SFAS 123(R). For the six months ended September 29, 2006, the Company has recorded stock-based compensation related to stock options of $183,000 for all unvested options granted prior to and options granted after the adoption of SFAS 123®.

As required by SFAS 123(R), management has made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest. The cumulative effect of initially adopting SFAS 123(R) was not material.

Valuation Assumptions

In connection with the adoption of SFAS 123(R), the Company estimated the fair value of stock options using a BSM valuation model. The fair value of each option grant is estimated on the date of grant using the BSM option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

	Three months ended	
	September 29, 2006	September 25, 2005
Expected term (in years)	6.5	6.0
Volatility	47.8	8.0
Risk-free interest rate	5.0	4.0
Dividend yield	0.00	0.00

Stock Options

The Company s various stock option plans provide for the granting of non-qualified and incentive stock options to purchase up to 3,700,000 shares of common stock for periods not to exceed 10 years. Options typically vest at the rate of 25% per year over four years, except for options granted under The Directors Plan, which typically vest at the rate of 50% per year over two years. Under these plans, the option exercise price equals the stock s market price on the date of grant. Options may be granted to employees, officers, directors and consultants. The Company has also granted options, under similar terms as above, under no specific shareholder approved plan.

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Stock option transactions for quarter ending September 29, 2006 are summarized as follows:

	Shares (000)	Weight Average Exercise Price
Outstanding, March 31, 2006	**2,959**	**$ 1.74**
Granted	60	$ 2.66
Exercised	(89)	$ 1.63
Expired	(57)	$ 1.40
Outstanding, June 30, 2006	**2,873**	**$ 1.77**
Exercisable, June 30, 2006	**2,098**	**$ 1.67**
Outstanding, June 30, 2006	**2,873**	**$ 1.77**
Granted	30	$ 1.70
Exercised	(68)	$ 1.01
Expired		
Outstanding, September 29, 2006	**2,835**	**$ 1.79**
Exercisable, September 29, 2006	**2,187**	**$ 1.72**

Note 3. Credit Risk

Pervasiveness of Estimates and Risk The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash equivalents and trade accounts receivable.

The Company maintains cash balances at five financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. As of September 29, 2006, the Company had cash at three financial institutions in excess of federally insured amounts in the amount of approximately $1.4 million. As excess cash is available, the Company invests in short-term and long-term investments, primarily consisting of Government Securities Money Market instruments, and Repurchase agreements. As of September 29, 2006, the Company held $4.1 million in a short-term Master Hold-in-Custody Repurchase agreement with a major California bank. Repurchase agreements are not considered a bank deposit, and are therefore not insured by the FDIC. These funds are backed by securities owned by Pacific Capital Bank, N.A. and are held in a safekeeping account. Current interest earned on this short-term investment range from 4-5 %. The investment period ranges from 7-30 days.

Accounts receivable are unsecured and the Company is at risk to the extent such amount becomes uncollectible. The Company performs periodic credit evaluations of its customers financial condition and generally does not require collateral. At September 29, 2006, one customer comprised 10% of accounts receivable. As of March 31, 2006, one customer comprised 14% of accounts receivable. As of September 29, 2006, the Company had 12 customers with balances over 90 days. As of June 30, 2006, the Company had 13 customers with balances over 90 days. During the quarters ended September 29, 2006 and June 30, 2006, no single customer accounted for more than 10% of the Company s net sales.

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Note 4. Detail of Certain Asset Accounts

Accounts Receivable

Accounts receivable consisted of the following:

	September 29, 2006	March 31, 2006
Trade receivables, net	$ 2,966,000	$ 4,068,000
Unbilled receivables	494,000	319,000
Total	$ 3,460,000	$ 4,387,000

Inventories

Inventories, which include material, labor and manufacturing overhead, are stated at standard cost (which approximates the first in, first out method) or market. Inventories consist of the following at September 29, 2006 and March 31, 2006.

	September 29, 2006	March 31, 2006
Raw material	$ 3,238,000	$ 4,288,000
Work-in-process	1,225,000	937,000
Finished products	382,000	390,000
Total inventories	4,845,000	5,615,000
Less reserve	(1,019,000)	(2,181,000)
Inventories, net	$ 3,826,000	$ 3,434,000

Intangible Assets

Intangible Assets The Company records goodwill, which represents the excess of cost over fair value of net assets. Other intangibles are recorded at cost. These intangible assets are associated with the value of the acquired non-compete agreement, customer list, trademarks, R&D contracts, and technology/patents. These other intangible assets are amortized using the straight-line method over their various estimated useful lives up to 15 years. Goodwill is not amortized, but is reviewed at least annually for possible impairment.

Patents Patents represent costs incurred in connection with patent applications. Such costs are amortized using the straight-line method over the useful life of the patent once issued, or expensed immediately if any specific application is unsuccessful.

Intangible assets that have definite lives consist of the following (in thousands):

		September 29, 2006			March 31, 2006		
	Weighted Average Lives	Carrying Value	Accumulated Amortization	Intangibles Net	Carrying Value	Accumulated Amortization	Intangibles Net
Non-Compete agreement	15	$ 130	$ 60	$ 70	$ 130	$ 38	$ 92

Customer list	3	825	240	585	825	170	655
Trademarks	15	2,270	210	2,060	2,270	135	2,135
R&D contracts	15	1,380	128	1,252	1,380	82	1,298
Patents		84	57	27	70	54	16
Patents pending		221		221	184		184
Technology	10	10,950	1,522	9,428	10,950	975	9,975
Total Intangibles	**11.4**	**$ 15,860**	**$ 2,217**	**$ 13,643**	**$ 15,809**	**$ 1,454**	**$ 14,355**

Amortization expense for the six months ended September 29, 2006 was approximately $760,000. Patent amortization expense was approximately $3,000 for the six months ended September 29, 2006. The current

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patents held by the Company have remaining useful lives ranging from 2 years to 20 years, with a weighted average remaining useful life of 3.5 years. Assuming no impairment to the intangible value, future amortization expense for intangible assets and patents are as follows:

Intangible Assets		**Patents**	
2007 (6 months)	$ 761,000	2007 (6 months)	$ 3,000
2008	1,521,000	2008	5,000
2009	1,521,000	2009	5,000
2010	1,454,000	2010	2,000
2011	1,358,000	2011	2,000
2012 & after	6,780,000	2012 & after	10,000
Total	**$13,395,000**	**Total**	**$27,000**

Patent pending costs of $221,000 will be amortized beginning the month the patents are granted.

Note 5. Debt

Line of Credit and Short Term Debt

The Company has a revolving line of credit from a regional bank, which provides for borrowings up to $3.0 million. The line allows for borrowings on 80% of eligible accounts receivable and 40% on eligible inventory, as defined, limited to $1.5 million. All business assets of the Company secure the line. Repayment is interest only, monthly, with principal due at maturity, January 2, 2007. Interest is computed at the Wall Street Journal Prime plus 1/2% with a floor rate of 6.5%. The Company has classified the entire note as a current liability, while we renegotiate loan covenants. The prime interest rate was 8.25% at September 29, 2006.

Debt & Notes Payable

During FY2006 $3.475 million of the $5 million Convertible debt (Convertible Debt 1st Tranche) was converted into 1,792,000 shares. At September 29, 2006 the Convertible Debt 1st Tranche balance was $1.4 million (net of debt discount).

In September 2005, the Company issued $1.0 million of convertible debt with warrants to purchase 170,164 shares of common stock (Convertible Debt 2nd Tranche). The Company valued the warrants and beneficial conversion feature at $1,000,000 and recorded an increase to additional paid-in-capital amounting to $1.0 million. The Company recognized in FY 2006 a $1,000,000 debt discount on the $1.0 million principal value of the convertible note payable and amortized the debt discount over the life of the note. The note was converted in November 2005 into 472,678 shares of Class A common stock and the debt discount was fully amortized to non-cash interest expense in FY 2006.

In March 2006, the Company issued $4.0 million of convertible debt (Convertible Debt 2nd Tranche) with warrants to purchase 680,658 shares of common stock. The Company valued the warrants and recorded an increase to additional paid-in-capital amounting to $2.7 million using the Intrinsic Value approach. Accordingly, the Company recognized a $2.7 million debt discount on the $4.0 million principal value of the convertible note payable and is amortizing the debt discount to interest expense over the life of the note. At September 29, 2006 the Convertible Debt 2nd Tranche was $1.9 million (net of the debt discount).

The Company also has a term loan from a regional bank. The loan is guaranteed by all of the Company s, and its subsidiaries, assets excluding Picometrix LLC intellectual property. Repayment is principal of $75,000 per month, plus interest, until maturity on May 2, 2008. Interest is computed at the Wall Street Journal Prime plus 1% with a ceiling of 7.75% and a floor of 6%. The Company has classified the entire note as a current liability, while we renegotiate loan covenants. The prime interest rate was 8.25% as of September 29, 2006.

The Michigan Economic Development Corporation (MEDC) entered into two loan agreements with Picometrix LLC, one in 2004 (MEDC-loan 1) and one in 2005 (MEDC-loan 2). Both loans are unsecured. MEDC-loan 1 is for an amount up to $1,024,000 with an interest rate of 7% and is fully amortized by the end of an eight (8) year period (ending on September 15, 2012). Interest is accrued during the first four years, but not paid, after

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which time principal plus accrued interest is paid over the remaining four years. On September 15, 2004 the Company borrowed $750,000 against the $1.0 million.

MEDC-loan 2 is for an amount up to $1.2 million with an interest rate of 7% and is fully amortized by the end of a six (6) year period (ending on September 15, 2011). Interest is accrued during the first two years and paid ratably over the third year. Beginning in the fourth year principal and accrued interest is paid over the remaining three years. On September 15, 2005 the Company borrowed $600,000 against the $1.2 million.

Convertible Promissory Notes Payable

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios (EITF 98-5), the Company recognized an embedded beneficial conversion feature present in the Convertible Note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of $3,165,000 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Notes.

In connection with the placement of the Convertible Notes in October 2004, September 2005 and March 2006, the Company issued detachable warrants granting the holders the right to acquire 1,446,398 shares of the Company s common stock at $1.78 per share. The warrants expire five years from the date of registration. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF -0027), the Company recognized the value attributable to the warrants in the amount of $1,881,000 to additional paid-in capital and a discount against the Convertible Notes. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.9%, a dividend yield of 0%, and volatility of 72%, 52% and 52%, respectively.

The debt discount attributed to the beneficial conversion feature and value of the warrants issued is amortized over the Convertible Note s maturity period (three year) as interest expense. In Q2 & Q3 of FY 2006, $3,475,000 and $1,000,000, respectively of the Convertible Notes were converted to the Company s common stock, and accordingly, that portion of the un-amortized debt discount was charged to interest expense. Additionally, in FY 2006, the un-amortized debt discount of $331,000 on the warrants associated with the convertible notes was charged to interest expense.

The Company recorded non-cash interest expense in the amount of $346,000 during the three month period ended September 29, 2006 in connection with the Convertible Notes discount compared to the comparable prior year quarter of $790,000. For the six month periods ended September 29, 2006 and September 25, 2005, the Company recorded non-cash interest expense in the amount of $640,000 and $891,000, respectively.

Related Party Debt

As a result of the acquisition of Picotronix, Inc. (dba Picometrix), the stockholders of Picometrix received four-year API promissory notes in the aggregate principal amount of $2.9 million (Debt to Related Parties). The notes are payable in four annual installments with the first being a payment of $500,000 paid May 2006, the second being a payment of $550,000 due May 2007, the third being a payment of $900,000 due May 2008 and the fourth being a payment of $950,500 due May 2009. The notes bear an interest rate of prime plus 1.0% and are secured by all of the intellectual property of Picometrix. API has the option of prepaying the debt to related parties without penalty. Note holders include Robin Risser and Steve Williamson, the Company s CFO and CTO respectively.

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Debt Maturity Table (in 000 s)

	Balance 9/29/06	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012 & Beyond
Bank Term Loan SBB&T	$ 1,500	$ 450	$ 900	$ 150			
Credit Line SBB&T	1,000	1,000					
MEDC- loan 1	750			109	188	188	265
MEDC loan 2	600			117	200	200	83
Convertible Debt 1st Tranche	1,525		1,525				
Discount on convertible note 1st	(159)	(74)	(85)				
Convertible Debt 2nd Tranche	4,000		4,000				
Discount on convertible note 2nd	(2,092)	(814)	(1,278)				
Debt to Related Parties	2,401		550	900	951		
Capital leases	5	5					
TOTAL	$ 9,530	$ 567	$ 4,612	$1,276	$1,339	$388	$348

Note 6. Equity

Shareholders Equity Transactions

During the period ended September 29, 2006, API stock option holders exercised rights to purchase 68,000 shares of Class A Common Stock at approximately $1.01 per share resulting in cash to the Company of approximately $68,700.

Note 7. Loss Per Share

Net Income (Loss) Per Share

Net income (loss) per share calculations is in accordance with SFAS No. 128, Earnings per Share . Accordingly, basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of shares outstanding for each year. The impact of Statement 128 on the calculation of earnings per share is as follows:

	Three months ended		Six months ended	
	September 29, 2006	September 25, 2005 Restated	September 29, 2006	September 25, 2005 Restated
BASIC AND DILUTED				
Average Shares Outstanding	19,026,000	17,252,000	19,003,000	16,192,000
Net Loss	$ (1,124,000)	$ (1,624,000)	$ (2,357,000)	$ (1,859,000)
Basic and Diluted Loss Per Share	$ (0.06)	$ (0.09)	$ (0.12)	$ (0.11)

The dilutive effect of stock options outstanding at September 29, 2006 and September 25, 2005 was not included in the calculation of diluted loss per share for the three-month and six-month periods because to do so would have had an anti-dilutive effect as the Company had a net loss for each of these periods. The weighted average number of shares excluded from the diluted loss per share computation was approximately 3.5 million and 2.5 million for the three month and six-month periods ended September 29, 2006 and September 25, 2005, respectively.

Note 8. Subsequent Events

None

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. Our preparation of these condensed consolidated financial statements requires us to make judgments and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statement and the reported amount of revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from such estimates under different assumptions or conditions.

Application of Critical Accounting Policies

Application of our accounting policies requires management to make certain 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, impairment costs, depreciation and amortization, 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

In accordance with Staff Accounting Bulletin No. 104, the Company recognizes revenue from the sale of products when the products are shipped to the customer. Revenues from the sale of services consist of non-recurring engineering charges, which are recognized when the services have been rendered. Historically, sales returns have amounted to less than 1% of gross sales and all sales are recorded net of sales returns and discounts.

Inventory Obsolescence

Slow moving and obsolete inventories are reviewed throughout the year. To calculate a reserve for obsolescence, we begin with a review of our slow moving inventory. Any inventory, which has been slow moving within the past 12 months, is evaluated and reserved if deemed appropriate. In addition, any residual inventory, which is customer specific and remaining on hand at the time of contract completion, is reserved for at the standard unit cost. The complete list of slow moving and obsolete inventory is then reviewed by the production, engineering and/or purchasing departments to identify items that can be utilized in the near future. Items identified as useable in the near future are then excluded from slow moving and obsolete inventory and the remaining amount is then reserved as slow moving and obsolete. 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. If a product that had previously been reserved for is subsequently sold, the amount of reserve specific to that item is then reversed.

Impairment of Long-Lived Assets

The Company continually reviews 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. The Company also reviews 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.

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Deferred Tax Asset Valuation Allowance

We record a deferred income tax asset in jurisdictions where we generate a loss. We also record a valuation allowance against these deferred tax assets in accordance with SFAS 109, Accounting for Income Taxes, when, in management s judgment, it is more likely than not that the deferred income tax assets will not be realized in the foreseeable future.

Results of Operations

Revenues

The Company predominantly operates in one industry segment, light and radiation detection devices that it sells to multiple markets including telecommunications, industrial sensing/NDT, military/aerospace, medical, and homeland security. *Revenues by market consisted of the following:*

	Three months ended				Six months ended			
Revenue	**Sept. 29, 2006**	**%**	**Sept. 25, 2005**	**%**	**Sept. 29, 2006**	**%**	**Sept. 25, 2005**	**%**
Telecommunications	$ 1,761,000	30%	920,000	18%	$ 2,505,000	21%	$ 1,425,000	14%
Industrial Sensing/NDT	2,403,000	41%	2,049,000	39%	4,814,000	42%	4,212,000	41%
Military/Aerospace	1,138,000	19%	1,225,000	24%	3,006,000	26%	2,439,000	24%
Medical	481,000	8%	446,000	9%	1,115,000	10%	1,144,000	11%
Homeland Security	95,000	2%	553,000	10%	106,000	1%	1,051,000	10%
Total Revenue	**$ 5,878,000**	**100%**	**$ 5,193,000**	**100%**	**$ 11,546,000**	**100%**	**$ 10,271,000**	**100%**

The Company s revenues for the quarter ended September 29, 2006 were $5.9 million, an increase of $0.7 million, or 13% over revenues of $5.2 million for the quarter ended September 25, 2005. YTD revenues are 12% higher than the previous six-month period, or $1.3 million

The Company had substantial growth in the telecommunications market in the 2nd quarter ended September 29, 2006 (Q2 2007) as compared to the quarter ended September 25, 2005 (Q2 2006). Telecommunications market revenues were $1.761 million, an increase of 91% (or $841,000) over Q2 2006 revenues of $920,000. Medical market revenues were $481,000, an increase of 8% (or $35,000) over Q2 2006 revenues of $446,000. Industrial Sensing/NDT market revenues increased to $2.4 million an increase of 17% (or $354,000) over Q2 2006 revenues of $2.05 million. Military/aerospace market revenues were $1.14 million, a decrease of 7% (or $87,000) over comparable prior period revenues of $1.22 million. Homeland Security revenues of $95,000 decreased $458,000 (or 83%) compared to Q2 2006 revenues of $553,000, due to the continued delay in government Terahertz development contracts from the Transportation Security Administration (TSA).

Revenues for the six months ended September 29, 2006 are $11.5 million, an increase of $1.3 million or 12% over the comparable revenues of $10.3 million for the six months ended September 25, 2005, due to substantial growth in the telecommunications, industrial sensing/NDT and military/aerospace markets. Telecommunications market revenues were $2.5 million, an increase of 76% (or $1.08 million) over the comparable prior period revenues of $1.42 million. Military/aerospace market revenues were $3.01 million, an increase of 23% (or $567,000) over comparable prior period revenues of $2.44 million. Industrial Sensing/NDT market revenues increased to $4.8 million, an increase of 14% (or $602,000) over the comparable prior period revenues of $4.21 million. Homeland Security revenue of $106,000 is down $945,000 (or 90%) compared to prior revenues of $1.05 million and medical revenue of $1.115 million is lower by $29,000 compared to the prior year revenue of $1.144 million.

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The Company expects continued strong revenue growth led by high growth in the telecommunications market. The Company expects to continue to experience uneven quarterly revenue in the homeland security market due primarily to the unpredictable nature of the timing of government development contracts.

Costs and expenses

Cost of product sales for Q2 2007 was $3.0 million (or 51% of sales) as compared to $3.1 million (or 59% of sales) for Q2 2006. The improvement in cost of product sales as percent of sales is attributable to product mix. As a result, Q2 2007 gross profit of $2.9 million (or 49% of sales) increased $.8 million (or 38%) over Q2 2006 gross profit of $2.1 million (41% of sales).

Cost of product sales for the six months ended September 29, 2006 was $6.2 million (or 54% of sales) as compared to $6.0 million (or 58% of sales) for the six months ended September 25, 2005. The improvement in cost of product sales as percent of sales is primarily attributable to product mix. As a result, gross profit increased to $5.4 million (or 46% of sales) for the six months ended September 29, 2006, from $4.3 million (42% of sales) for the comparable six months ended September 25, 2006, an increase of 25%.

Research and development (R&D) expenses increased by $217,000 (or 27%) to $1,019,000 during Q2 2007 compared to $802,000 in Q2 2006. The increase in R & D expenses is the result of non-recurring expenses from the wafer fabrication consolidation of $88,000 and the Company s investment in high-speed optical receiver and terahertz product platforms of $129,000.

Research and development (R&D) expenses increased by $741,000 (or 59%) to approximately $2.0 million during the six months ended September 29, 2006 compared to approximately $1.25 million for the comparable six months ending September 25, 2005. The increase in R & D expenses is the result of non-recurring expenses from the wafer fabrication consolidation of $121,000 and the Company s investment in high-speed optical receiver and terahertz product platforms of $620,000. Excluding the non-recurring R&D expenses for the wafer fabrication consolidation, R&D expenses for the six month period ended September 29, 2006 were approximately $1.87 million. We expect that future R&D expenses will be at least the same level or greater during the current fiscal year, as we continue our investment in our high growth opportunities.

Marketing and sales expenses decreased by $54,000 (or 11%) to $452,000 in Q2 2007, which is 8% of sales as compared to $506,000 (or 10% of sales) for Q2 2006. The decrease was primarily attributable to the variability of the timing of expenses associated with field sales, field-engineering support and corresponding marketing plans.

Marketing and sales expenses increased by $154,000 (or 19%) to $984,000 for the six months ended September 29, 2006, which is 9% of sales as compared to $830,000 (or 8% of sales) for the comparable six months ended September 25, 2005. The increase was primarily attributable to the high-speed optical receivers product platform growth initiatives, including the growth of external field sales, field engineering support and development of the corresponding internal sales organization. The Company has largely completed the expansion of the domestic field sales force for the high-speed optical receiver (HSOR) and opto-solutions product platforms. The company is continuing to expand its HSOR international distribution in European and Asian markets. The Company is expanding its business development function in the Terahertz product platform for industrial/NDT and homeland security markets and is committed to expanding its business development function in all product platforms for the military market. As a result, further increases in compensation, travel and related expenses during fiscal 2007 for these purposes are anticipated.

Total general and administrative expenses increased by $445,000 (31%) to approximately $1.9 million in Q2 2007 as compared to $1.46 million in Q2 2006. This increase was primarily the result of increased operating expenses of $186,000, the adoption of 123R for the non-cash expensing of stock option grants of $66,000, the non-cash increase in depreciation and intangible asset amortization of $60,000 and one-time severance expense of approximately $133,000. Expressed as a percentage of net sales, general and administrative expenses represented 32.3% in Q2 2007 as compared to 28.0% in Q2 2006.

Total general and administrative expenses increased by $771,000 (27%) to approximately $3.58 million for the

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six months ended September 29, 2006 as compared to $2.81 million for the six months ended September 25, 2005. This increase was primarily the result of increased operating expenses of $212,000, a $243,000 increase in non-cash depreciation and intangible amortization expense, the adoption of 123R for the non-cash expensing of stock option grants of $183,000 and a one-time severance expense of $133,000. Expressed as a percentage of net sales, general and administrative expenses represented 31.0% for the six months ended September 29, 2006 as compared to 27.3% for the prior year comparable period. The Company expects G&A expenses to remain relatively stable except for expenses relating to Sarbanes-Oxley Act section 404. Section 404, internal controls, requires the Company to be compliant by fiscal year ending March 2008, based on current market capitalization. External costs required to be in compliance will materially increase over the next two years.

Interest income in Q2 2007 totaled approximately $ 59,000, an increase of $54,000 over Q2 2006, due primarily to interest earned on substantially higher cash and cash equivalent balances invested at higher rates of interest.

Interest income for the six months ending September 29, 2006 totaled approximately $116,000, an increase of $102,000 over the six months ended September 25, 2005, due primarily to interest earned on substantially higher cash and cash equivalent balances invested at higher rates of interest

Interest expense for the Q2 2007 was $609,000 compared to $981,000 in Q2 2006, a decrease of $372,000. This decrease was primarily attributable to a decrease in the non-cash interest expense amortization of the convertible note discount of $444,000 offset by an increase in interest expense of $72,000 which was primarily attributable to the increased interest expense on the convertible notes recorded at prime plus 1%.

Interest expense for the six months ended September 29, 2006 was $1,162,000 compared to $1,253,000 for the six months ended September 25, 2005, a decrease of $91,000. This decrease was primarily attributable to a decrease in the non-cash interest expense amortization of the convertible note discount of $251,000 offset by an increase in interest expense of $160,000 which was primarily attributable to the increased interest expense of $70,000 on the convertible notes and $67,000 on bank debt, both payable at prime plus 1%.

Net loss for Q2 2007 was $1,124,000, as compared to net loss of $1,624,000 in Q2 2006. The decreased loss of approximately $500,000 is comprised primarily of increased gross profit of $765,000 and a decreased interest expense of $372,000, offset primarily by an increase of SG&A expenses of $391,000, an increase in R&D expenses of $217,000, which includes an increase in non-recurring wafer fabrication consolidation expenses of $88,000. Non-cash operating expenses for the three months ended September 29, 2006 were $1,068,000 compared to $1,413,000 for the three months ended September 25, 2005, an decrease of $345,000 which is primarily the result of increased G&A expense of $66,000 as a the result of the adoption of 123R for the expensing of stock option grants and a interest expense decrease of $444,000 related to convertible notes discount amortization.

Net loss for the six months ended September 29, 2006 was $2.36 million, as compared to net loss of $1.86 million for the six months ended September 25, 2005. The increase of approximately $498,000 in losses is primarily comprised of, increased SG&A of $926,000 and increased R&D expense of $741,000, which includes non-recurring expenses from wafer fabrication consolidation of $121,000. These increases are offset by an increase in gross margin of $1,085,000 and a decrease in interest expense of $91,000. Non-cash operating expenses for the six months ended September 29, 2006 were $2,126,000 compared to $1,968,000 for the six months ended September 25, 2005, an increase of $158,000 which is primarily the result of increased G&A expense of $183,000 as a the result of the adoption of 123R for the expensing of stock option grants, an interest expense decrease of $251,000 related to convertible notes discount amortization and an increase in the intangible amortization expenses of $170,000.

The Company expects the wafer fabrication consolidation expenses to increase during the consolidation period over the balance of the fiscal year. The Company has projected wafer fabrication consolidation expense to range from $600,000 to $700,000 for this fiscal year. The Company s future benefits, as a result of the wafer fabrication consolidation, include cost savings through increased efficiencies, reduced scrap, improved process capability, and higher yields. In addition the consolidation will provide new capabilities for product development, leading to growth opportunities through new product introductions.

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Liquidity and Capital Resources

At September 29, 2006, the Company had unrestricted cash and cash equivalents of $4.8 million, a decrease of $1.1 million from the March 31, 2006 balance of $5.9 million. The decrease is attributable to capital expenditures of wafer fabrication equipment in Q2 2007. The Company believes that current cash levels combined with our revolving line of credit will be sufficient for our 2007 fiscal year.

The Company maintains a revolving line of credit with a regional bank that provides for borrowings up to $3.0 million, based on 80% of the Company s eligible accounts receivable and 40% of the Company s eligible inventory, subject to certain limitations as defined by the agreement. At September 29, 2006, the outstanding balance on the line was $1.0 million. All business assets of the Company secure the line. As most recently amended, repayment is interest only monthly, with principal due at maturity date on January 2, 2007. Interest is computed at the prime rate as published in the Wall Street Journal plus 1/2% with a floor of 6.5%. The prime interest rate was 8.25% at September 29, 2006.

The Company anticipates capital expenditures in FY 07 of approximately $2.2 million, primarily due to equipment and facility expenditures associated with the wafer fabrication consolidation into the Ann Arbor, Michigan facility. The Company has a bank line of credit of $3.0 million of which $1 million has been used and Michigan Economic Development Corporation (MEDC) long-term note commitments of $2.2 million, of which $1.35 million has been used. The company does not anticipate requiring additional sources of financing for FY 07.

Operating Activities

Net cash provided by operating activities of $420,000 for the six months ended September 29, 2006 was primarily the result of net operating loss of $(2.357) million and an increase in inventories of $(392,000), offset by a decrease in accounts receivable of $930,000 and prepaid expenses of $97,000, an increase in accounts payable and other liabilities of $16,000, depreciation and amortization of $1.303 million, $640,000 amortization of convertible note discount and stock compensation (123R) of $183,000.

Investing Activities

Net cash used in investing activities was $832,000 for the six months ended September 29, 2006. Capital expenditure activity for Q2 2007 accounted for $782,000 of the cash used, and patent expenditures were $50,000 for the first six months of fiscal year 2007. During the 1st two quarters, the company has spent $529,000 in capital for the Wafer Fabrication consolidation.

Financing Activities

Net cash used in financing activities was $737,000 for the six months ended September 29, 2006. This reflects the principal payment on the term loan of $450,000 and the annual note payable to related parties of $500,000. Employees exercised stock options providing the company proceeds of approximately $213,000. The Company is exposed to interest rate risk for marketable securities. We continually monitor interest rates and will attempt to utilize the best possible avenues of investment as excess cash becomes available.

Based on current plans and business conditions, we believe our existing working capital and borrowing capacity, coupled with the funds generated from our operations, will be sufficient to fund our anticipated working capital and capital expenditures for the next twelve months. However, if we make an acquisition requiring amounts in excess of our cash and cash equivalents balance, it may be necessary to raise debt or equity in the private or public securities markets.

We identify and disclose all of our significant off balance sheet arrangements and related party transactions. We do not utilize special purpose entities or have any known financial relationships with other companies special purpose entities.

Operating Leases We enter into operating leases where the economic climate is favorable. The liquidity impact of operating leases is not material.

Purchase Commitments We have purchase commitments for materials, supplies, services, and property, plant and equipment as part of the normal course of business. Commitments to purchase inventory at above-

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market prices have been reserved. Certain supply contracts may contain penalty provisions for early termination. Based on current expectations, we do not believe that we are reasonably likely to incur any material amount of penalties under these contracts.

Other Contractual Obligations We do not have material financial guarantees that are reasonably likely to affect liquidity.

Summary of Contractual Obligations and Commitments A summary of our future contractual payments related to debt, lease obligations, and non-cancelable open purchase orders is as follows

Period ending Sept. 29, 2006	Operating Leases	Non-Cancelable Purchase Orders	Total
2007(6 months)	$ 576,000	$ 1,634,000	$ 2,210,000
2008	1,115,000		1,115,000
2009	1,035,000		1,035,000
2010	704,000		704,000
2011	176,000		176,000
2012 and thereafter			
Total	$ 3,606,000	$ 1,634,000	$ 5,240,000

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At September 29, 2006, all of the Company s interest rate exposure is linked to the prime rate, subject to certain limitations. As such, we are at risk to the extent of changes in the prime rate and do not believe that moderate changes in the prime rate will materially affect our operating results or financial condition. The interest rate risk is hedged by an interest rate cap of 7.75% on the term loan of $2,700,000 relating to the purchase of Picometrix.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures - Our Chief Executive Officer and Chief Financial Officers (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 (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report and believe that the Company s disclosure controls and procedures are effective based on the required evaluation. API management reconfigured our Corporate and Camarillo accounting and disclosure controls and transferred certain accounting and external reporting functions to our Ann Arbor office. We will continue to review and assess future needs and responsibilities in all locations and may make future changes. We believe that these changes may have a material affect on our internal controls and procedures. It is management opinion that this will reduce costs and strengthen controls and procedures upon completion.

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

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes with respect to the risk factors disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

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

None

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

The following documents are filed as Exhibits to this report:

Exhibit No.	
31.1	Certificate of the Registrant s Chairman, Chief Executive Officer, and Director pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certificate of the Registrant s Chief Financial Officer, and Secretary pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
32.2	Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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)
November 13, 2006
/s/ Richard Kurtz
Richard Kurtz
Chairman, Chief Executive Officer
And Director
/s/ Robin Risser
Robin Risser
Chief Financial Officer
And Director

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EXHIBIT INDEX

Exhibit No.	Description of Exhibits
31.1	Certificate of the Registrant s Chairman, Chief Executive Officer, and Director pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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