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ADVANCED PHOTONIX INC  
Form 8-K  
September 05, 2002

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report  
(Date of earliest event reported): August 21, 2002  
-----

Advanced Photonix, Inc.  
-----  
(Exact Name of Registrant as specified in its Charter)

|   |                             |                                      |
|---|-----------------------------|--------------------------------------|
| Delaware  | 1-11056                     | 33-0325836                           |
| -----   | -----                       | -----                                |
| (State or other jurisdiction<br>of incorporation) | (Commission<br>File Number) | (IRS Employer<br>Identification No.) |
| 1240 Avenida Acaso, Camarillo, California         |                             | 93012                                |
| -----   | -----                       | -----                                |
| (Address of Principal Executive Offices)          |                             | (ZIP Code)                           |

Registrant's telephone number,  
including area code: (805) 987-0146  
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Item 2. Acquisition or Disposition of Assets.

(a) On August 21, 2002, Silicon Sensors, Inc., a wholly owned subsidiary of Advanced Photonix, Inc. ("API"), purchased the business and substantially all of the assets of Silicon Sensors, L.L.C., a privately owned manufacturer of optoelectric semiconductor based components, hybrid assemblies and other proprietary solid-state light and radiation detection devises. The purchase price was \$1,700,000 in cash, plus the assumption of certain of Seller's liabilities, mainly accounts payable and accrued liabilities valued at approximately \$264,000. This purchase price was determined through arm's-length negotiations between the parties. API used internally generated cash for this purchase.

(b) The principal assets owned by Seller are machinery and equipment used in the

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manufacture and assembly of optoelectric semiconductor based components, hybrid assemblies and other proprietary solid-state light and radiation detection devices. API intends to continue to use these assets for these purposes. Silicon Sensors is based on Dodgeville, Wisconsin.

### Item 7. Financial Statements and Exhibits

#### (a) Financial Statements

(i) Financial Statements of Silicon Sensors, L.L.C. for the fiscal years ended September 30, 2001 and September 30, 2000 audited by Virchow, Krause & Company, LLP, Independent Certified Public Accountants.

(ii) Unaudited Financial Statements of Silicon Sensors, L.L.C. for the ten months ended July 31, 2002.

#### (b) Pro Forma Information

Pro forma financial information relating to the acquired business will be filed by amendment.

#### (c) Exhibits

| Item Ref<br>in 17 CFR<br>229.601(b) | Exhibit   | Exhibit<br>Number |
|-------------------------------------|---|-------------------|
| 2                                   | Asset Purchase Agreement dated as of August 21, 2002, by and among API, Silicon Systems, Inc., Silicon Systems, L.L.C., Jack L. McCook and Paul L. Ludwig                 | 2.1               |
| 10                                  | Employment Agreement dated as of August 21, 2002 by and between API and Paul D. Ludwig  | 10.1              |
| 23                                  | Consent of Virchow, Krause & Company, LLP, Independent Certified Public Accountants, to the filing of the Financial Statements of Silicon Systems, L.L.C. included herein | 23.1              |

[Item 7. (a) (i)]

### INDEPENDENT AUDITORS' REPORT

Members  
Silicon Sensors, LLC  
Dodgeville, Wisconsin

We have audited the accompanying balance sheets of Silicon Sensors, LLC as of September 30, 2001 and 2000 and the related statements of income and members' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and

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perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Silicon Sensors, LLC as of September 30, 2001 and 2000 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information provided, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Virchow, Krause & Company, LLP  
 Madison, Wisconsin  
 October 24, 2001

### SILICON SENSORS, LLC

#### BALANCE SHEETS September 30, 2001 and 2000

| ASSETS                           | 2001      | 2000  |
|----------------------------------|-----------|-------|
| -----                            | -----     | ----- |
| <b>CURRENT ASSETS</b>            |           |       |
| Cash and cash equivalents        | \$ 62,716 | \$    |
| Accounts receivable              | 421,807   |       |
| Inventories                      | 780,510   |       |
| Member advances                  | 52,469    |       |
| Other current assets             | 37,067    |       |
| Total Current Assets             | 1,354,569 | 1     |
| <b>EQUIPMENT AND FURNISHINGS</b> |           |       |
| Machinery and equipment          | 1,223,085 | 1     |
| Office furnishings               | 221,911   |       |
| Total Equipment and Furnishings  | 1,444,996 | 1     |
| Less: Accumulated depreciation   | (795,914) |       |
| Net Equipment and Furnishings    | 649,082   |       |
| <b>OTHER ASSETS, NET</b>         |           |       |
| Non-compete agreement            | 5,210     |       |
| Other                            | 6,000     |       |

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|                                       |              |      |
|---------------------------------------|--------------|------|
| Total Other Assets                    | 11,210       |      |
| TOTAL ASSETS                          | \$ 2,014,861 | \$ 2 |
| LIABILITIES AND MEMBERS' EQUITY       |              |      |
| -----                                 |              |      |
| CURRENT LIABILITIES                   |              |      |
| Accounts payable                      | \$ 122,303   | \$   |
| Accrued expenses                      | 178,029      |      |
| Current maturities of debt            | 387,971      |      |
| Total Current Liabilities             | 688,302      |      |
| LONG-TERM LIABILITIES                 | 711,686      |      |
| Total Liabilities                     | 1,399,988    | 1    |
| MEMBERS' EQUITY                       | 614,873      |      |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | \$ 2,014,861 | \$ 2 |

See accompanying notes to financial statements.

SILICON SENSORS, LLC

STATEMENTS OF INCOME AND MEMBERS' EQUITY  
Years Ended September 30, 2001 and 2000

|                          | 2001         | 2000         |
|--------------------------|--------------|--------------|
|                          | -----        | -----        |
| NET SALES                | \$ 4,377,348 | \$ 3,377,348 |
| COST OF GOODS SOLD       | 3,023,849    | 2,823,849    |
| Gross Profit             | 1,353,499    | 553,499      |
| OPERATING EXPENSES       |              |              |
| Selling                  | 321,845      | 271,845      |
| Engineering              | 242,971      | 242,971      |
| Administrative           | 462,302      | 462,302      |
| Total Operating Expenses | 1,027,118    | 977,118      |
| Income from Operations   | 326,381      | (223,619)    |
| OTHER INCOME (EXPENSE)   |              |              |
| Interest expense         | (90,146)     | (90,146)     |
| Other income             | 5,521        | 5,521        |

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|   |            |       |
|---|------------|-------|
| Net Other Expense                                     | (84,625)   |       |
|   | -----      | ----- |
| Income Before Cumulative Effect                       | 241,756    |       |
| Cumulative effect of a change in accounting principle | --         |       |
|   | -----      | ----- |
| NET INCOME  | \$ 241,756 | \$    |
|   | =====      | ===== |
| MEMBERS' EQUITY - Beginning of Year                   | \$ 534,168 | \$    |
| Net income  | 241,756    |       |
| Members' distributions                                | (161,051)  |       |
|   | -----      | ----- |
| MEMBERS' EQUITY - END OF YEAR                         | \$ 614,873 | \$    |
|   | =====      | ===== |
| See accompanying notes to financial statements.       |            |       |

SILICON SENSORS, LLC

STATEMENTS OF CASH FLOWS  
Years Ended September 30, 2001 and 2000

|   | 2001         |       |
|---|--------------|-------|
|   | -----        | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES          |              |       |
| Cash received from customers                  | \$ 4,487,930 | \$    |
| Cash paid to suppliers and employees          | (3,805,583)  |       |
| Interest paid                                 | (94,471)     |       |
| Income taxes received (paid)                  | (33,847)     |       |
|   | -----        | ----- |
| Net Cash Flows From Operating Activities      | 554,029      |       |
|   | -----        | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES          |              |       |
| Capital expenditures                          | (88,316)     |       |
| Proceeds from sale of assets                  | --           |       |
|   | -----        | ----- |
| Net Cash Flows from Investing Activities      | (88,316)     |       |
|   | -----        | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES          |              |       |
| Net change in revolving credit facility       | (160,000)    |       |
| Payments on long-term debt                    | (167,802)    |       |
| Proceeds from long-term debt                  | 40,224       |       |
| Members' distributions                        | (161,051)    |       |
|   | -----        | ----- |
| Net Cash Flows From Financing Activities      | (448,629)    |       |
|   | -----        | ----- |
| Net Change in Cash and Cash Equivalents       | 17,084       |       |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 45,632       |       |
|   | -----        | ----- |
| CASH AND CASH EQUIVALENTS - End of Year       | \$ 62,716    |       |
|   | =====        | ===== |
| RECONCILIATION OF NET INCOME TO NET CASH      |              |       |

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|   |            |
|---|------------|
| FLOWS FROM OPERATING ACTIVITIES   |            |
| Net income  | \$ 241,756 |
| Adjustments to reconcile net income to net cash flows from operating activities |            |
| Noncash items included in income  |            |
| Depreciation  | 295,871    |
| Nonoperational items included in income   |            |
| Loss (gain) on asset disposal   | --         |
| Change in accounting principle  | --         |
| Changes in noncash components of working capital                                |            |
| Accounts receivable   | 105,059    |
| Other receivables   | (7,182)    |
| Inventories   | (60,909)   |
| Other current assets  | (11,688)   |
| Accounts payable and other current liabilities                                  | (8,878)    |
|   | -----      |
| NET CASH FLOWS FROM OPERATING ACTIVITIES  | \$ 554,029 |
|   | =====      |
| See accompanying notes to financial statements.                                 |            |

SILICON SENSORS, LLC

NOTES TO FINANCIAL STATEMENTS  
September 30, 2001 and 2000

NOTE 1 - ORGANIZATION AND BUSINESS

Nature of Operations

-----  
Silicon Sensors, LLC, a limited liability company, manufactures silicon photodiodes and optical assemblies. Sales are to customers in the United States, Europe and Japan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

-----  
The company defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

Accounts Receivable

-----  
The company grants credit to customers, most of which are located in the United States, Europe and Japan. No allowance for doubtful accounts is considered necessary.

Inventories

-----  
Inventories are valued at lower of cost using the first-in, first-out (FIFO) method or market. Work in process includes the cost of materials, labor, and overhead.

Equipment and Furnishings

-----  
Equipment and furnishings are recorded at cost. Depreciation is provided using the straight-line method. Expenditures for maintenance and repairs are expensed

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as incurred. Estimated useful lives are as follows:

|                         | Years |
|-------------------------|-------|
|                         | ----- |
| Machinery and equipment | 2 -10 |
| Office furnishings      | 3 - 7 |

### Other Assets, Net

-----  
 Organization costs and amounts paid to the former owner of the business under a non-compete agreement are being amortized using the straight-line method over five years, commencing November 4, 1996. Accumulated amortization as of September 30, 2001 is \$344,790. (See Note 12)

### Income Taxes

-----  
 The company is not a tax paying entity; thus there is no provision for federal or state income taxes recorded in the financial statements. The income of the company is allocated to the income interest members in accordance with the terms of the company's operating agreement and reported on their respective income tax returns.

Because the company has a September 30 year end date, it is required to deposit, with the Internal Revenue Service, an amount equal to 25% of the prior year taxable income extended times the maximum federal income tax rate. Other current assets at September 30, 2001, include \$33,847 of a prepaid income tax deposit.

### Estimates

-----  
 The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

### Reclassification

-----  
 For comparability, certain 2000 amounts have been reclassified to conform with classifications adopted in 2001.

### NOTE 3 - INVENTORIES

Inventories consist of the following at September 30:

|                   | 2001      | 2000      |
|-------------------|-----------|-----------|
|                   | -----     | -----     |
| Raw materials     | \$607,151 | \$545,194 |
| Work in process   | 77,831    | 68,569    |
| Finished goods    | 95,528    | 105,837   |
|                   | -----     | -----     |
| Total Inventories | \$780,510 | \$719,600 |

### NOTE 4 - DEBT AND LONG-TERM LIABILITIES

Notes payable and obligations at September 30 consist of the following:

|                                   | 2001       | 2000       |
|-----------------------------------|------------|------------|
|                                   | -----      | -----      |
| Revolving Credit Facility - Prime | \$ 175,000 | \$ 335,000 |

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|   |             |             |
|---|-------------|-------------|
| Bank Term Loan - Prime less 1/2%        | 216,686     | 316,682     |
| Installment Note                        | 53,781      | 15,276      |
| Member Loan - Prime                     | 65,000      | 65,000      |
| Subordinated Debt - 7.18%               | 436,074     | 473,575     |
| Deferred Payment-Interest Imputed at 9% | 153,116     | 73,316      |
|   | -----       | -----       |
| Total                                   | \$1,099,657 | \$1,278,849 |
| Less: Current portion                   | (387,971)   | (505,473)   |
|   | -----       | -----       |
| Long-Term Portion                       | \$ 711,686  | \$ 773,376  |
|   | =====       | =====       |

The company has a loan and security agreement with a bank which provides for a revolving credit facility and a term loan. Borrowings under each arrangement are secured by substantially all of the assets of the company and personally guaranteed up to \$350,000 by the income interest members of the company. The agreements contain covenants with respect to the maintenance of certain financial ratios, additional borrowings, and capital expenditures.

The revolving credit facility matured October 1, 2000 and was renewed for a four month term as of that date. Borrowings under the agreement are limited to an amount equal to 80% of eligible accounts receivable plus 50% of eligible inventories, with a maximum amount of \$1,000,000, and bear interest at the bank's prime rate.

The term loan is payable in monthly installments of \$8,333 plus interest over seven years.

Installment note is payable in monthly installments over 5 years, interest at 3%.

Subordinated debt was negotiated in connection with the purchase of the business and is payable to the former owner (who is also a member of the company). The note is payable in quarterly installments of \$17,627 through October, 2003 with a \$341,272 balloon payment due November 4, 2003. The note is collateralized by substantially all of the assets of the company and is personally guaranteed by one of the income interest members. The note and any claims against the collateral are subordinated to amounts due and security interests under the bank loan and security agreement. Claims against the personal guarantee are also limited as long as there are balances outstanding under the bank loans.

Deferred payment represents an amount payable to the former owner of the business (who is also a member of the company) under an earn-out arrangement contained in the purchase agreement discounted at 9%. For each of the five twelve month periods ending October 31, 2001, the company is obligated to pay to the former owner an amount equal to 10% of sales for the period in excess of \$3,000,000. Annual amounts earned under the arrangement are payable in three equal annual installments commencing in January of the succeeding year. The maximum amount which can be earned under this arrangement over the five-year period is \$450,000.

Maturities on long-term liabilities for years ending after September 30, 2001 are as follows:

|       |             |
|-------|-------------|
| 2002  | \$ 387,971  |
| 2003  | 276,124     |
| 2004  | 414,230     |
| 2005  | 11,481      |
| 2006  | 9,851       |
|       | -----       |
| Total | \$1,099,657 |



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### NOTE 5 - MEMBERS' EQUITY

The former owner of the business owns a 10% liquidation and voting interest in the company. Under the terms of the company's operating agreement, after November 1, 2001, this member may put his membership interest to the company for an amount equal to the greater of \$350,000 or 10% of the then fair market value of the company. Upon the earlier to occur of the death of this member or the transfer of his interest, the company may, at its option, redeem such member's interest under equivalent terms. In either event, the amount payable is to be first reduced by any amounts paid, up to \$350,000, to such member under the earn-out arrangement. (See Note 4)

### NOTE 6 - PROFIT SHARING PLAN

The company has a qualified profit sharing plan with a 401(K) deferred compensation provision. The Plan covers all full-time employees who qualify as to age and length of service. Company contributions to the plan are made at the discretion of the managing members. Employees may also elect to make deferred income contributions to the Plan. There is no company matching requirement for such employee contributions. Profit sharing expense for the years ended September 30, 2001 and 2000 was \$40,020 and \$36,872.

### NOTE 7 - COMMITMENTS

#### Operating Leases

-----  
The company leases its office and plant facility from a member of the business under a five year operating lease, which commenced November 4, 1996, at a monthly rental rate of \$5,000. The lease provides two five-year renewal options and a right of first refusal to purchase the facility and certain adjacent land owned by the lessor. The company exercised a five-year renewal option during 2001. However, the company has the option to terminate the lease at any time after April 30, 2003.

Minimum future lease payments on this lease at September 30, 2001 are as follows:

|       |           |
|-------|-----------|
| 2002  | \$ 66,600 |
| 2003  | 39,200    |
|       | -----     |
| Total | \$105,800 |

Rent expense was \$60,000 for the years ended September 30, 2001 and 2000. The company is responsible for the payment of property taxes, insurance, maintenance and utilities.

Effective December 13, 1999 the company entered into an automobile lease which extends to November 13, 2002, at a rate of \$750 per month. Lease expense for the years ended September 30, 2001 and 2000 was \$9,000 and \$7,500, respectively.

### NOTE 8 - RELATED PARTY TRANSACTIONS

Interest paid to members under the subordinated debt agreement and member loan totaled \$41,837 for the year ended September 30, 2001 and \$41,056 for the year ended September 30, 2000.

The company has a member advance of \$52,300 and \$41,000 at September 30, 2001 and 2000, respectively. The amount is classified as a current asset as no written agreement exists.

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### NOTE 9 - OTHER MATTERS

#### Major Customers

-----

A substantial portion of the company's sales are to two customers. Sales to these customers totaled \$2,068,000 during the year ended September 30, 2001 and \$749,000 during the year ended September 30, 2000.

#### Major Vendors

-----

Materials purchased from two major vendors totaled \$244,000 during the year ended September 30, 2001 and \$197,000 during the year ended September 30, 2000.

### NOTE 10 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

A non-cash transaction recorded during the year ended September 30, 2001 resulted from the increase in the deferred payment under the earn-out arrangement of \$110,899, which amount has been allocated to the cost of the assets acquired upon the purchase of the business.

### NOTE 11 - CONCENTRATIONS OF CREDIT RISK

The company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The company has not experienced any losses in such accounts. The company believes it is not exposed to any significant credit risk.

### NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE

During the year ended September 30, 2000, the company adopted SOP 98-5 Reporting on Costs of Start-up Activities, which requires start-up costs (including organization costs) to be expensed as incurred. The company wrote off organizational expenses of \$38,317 as a result of this change.

[Item 7.(a)(ii)]

#### SILICON SENSORS LLC Balance Sheet (UNAUDITED)

|                         | At July 31st |           |
|-------------------------|--------------|-----------|
| ASSETS                  | 2002         | 2001      |
| CURRENT ASSETS          |              |           |
| Cash                    | \$ 7,043     | \$ 26,352 |
| Accounts Receivable     | 328,156      | 475,484   |
| Inventory               | 505,115      | 762,199   |
| Other Current Assets    | 10,202       | 13,984    |
| TOTAL CURRENT ASSETS    | 850,516      | 1,278,019 |
| EQUIPMENT & FURNISHINGS |              |           |
| Equipment               | 1,242,443    | 1,105,971 |
| Leasehold Improvements  | 7,746        | 12,245    |

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|                               |              |              |
|-------------------------------|--------------|--------------|
| Office Furnishings            | 222,276      | 208,083      |
|                               | -----        | -----        |
|                               | 1,472,465    | 1,326,299    |
| Less Accumulated Depreciation | (948,360)    | (758,747)    |
|                               | -----        | -----        |
| Net Equipment & Furnishings   | 524,105      | 567,552      |
| OTHER ASSETS                  | 6,000        | 24,335       |
|                               | -----        | -----        |
| TOTAL ASSETS                  | \$ 1,380,621 | \$ 1,869,906 |
|                               | =====        | =====        |
| LIABILITIES AND EQUITY        |              |              |
| -----                         |              |              |
| CURRENT LIABILITIES           |              |              |
| Accounts Payable              | \$ 127,921   | \$ 169,077   |
| Accrued Expenses              | 136,354      | 115,431      |
| Current Maturities on Debt    | 49,713       | 137,500      |
|                               | -----        | -----        |
| TOTAL CURRENT LIABILITIES     | 313,988      | 422,008      |
| LONG TERM LIABILITIES         | 853,482      | 796,580      |
|                               | -----        | -----        |
| Total Liabilities             | 1,167,470    | 1,218,588    |
| MEMBERS' EQUITY               | 213,151      | 651,318      |
|                               | -----        | -----        |
| TOTAL LIABILITIES & EQUITY    | \$ 1,380,621 | \$ 1,869,906 |
|                               | =====        | =====        |

SILICON SENSORS LLC  
Income Statement  
(UNAUDITED)  
For the Ten Months Ended July 31, 2002

|                        | YEAR TO DATE |              |
|------------------------|--------------|--------------|
|                        | 2002         | 2001         |
|                        | -----        | -----        |
| SALES                  | \$ 2,482,907 | \$ 3,835,967 |
| COST OF GOODS SOLD     | 1,982,667    | 2,646,277    |
|                        | -----        | -----        |
| GROSS PROFIT           | 500,240      | 1,189,690    |
| OPERATING EXPENSES     |              |              |
| Selling                | 262,350      | 275,775      |
| Engineering            | 176,203      | 205,764      |
| Administration         | 346,947      | 387,754      |
|                        | -----        | -----        |
| INCOME FROM OPERATIONS | (285,260)    | 320,398      |
| OTHER INCOME/(EXPENSE) | 38,789       | 4,561        |
| INTEREST EXPENSE       | (56,824)     | (78,947)     |
| ACQUISITION COSTS      | (113,542)    | -            |
|                        | -----        | -----        |
| NET INCOME (LOSS)      | \$ (416,836) | \$ 246,011   |
|                        | =====        | =====        |

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SILICON SENSORS LLC  
 Statements of Cash Flows  
 (UNAUDITED)

For the Ten Months Ended July 31, 2002

|  |              |
|--|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |              |
| Cash received from Customers   | \$ 2,619,030 |
| Cash paid to suppliers and employees   | (2,429,949)  |
| Interest paid  | (62,346)     |
| Income taxes received (paid)   | 33,847       |
|  | -----        |
| Net Cash Flows From Operating Activities   | 160,582      |
|  | -----        |
| CASH FLOWS FROM INVESTING ACTIVITIES   |              |
| Capital Expenditures   | (35,106)     |
| Proceeds from Sale of Fixed Asset  | 200          |
|  | -----        |
| Net Cash Flows From Investing Activities   | (34,906)     |
|  | -----        |
| CASH FLOWS FROM FINANCING ACTIVITIES   |              |
| Net change in revolving credit facility  | 125,000      |
| Payments on long-term debt   | (321,462)    |
| Proceeds from long-term debt   | -            |
| Members' Equity  | 125,000      |
| Members' Distributions   | (109,886)    |
|  | -----        |
| Net Cash Flows From Financing Activities   | (181,348)    |
|  | -----        |
| Net Change in Cash and Cash Equivalents  | (55,672)     |
| CASH AND CASH EQUIVALENTS - Beginning of Year                                      | 62,715       |
|  | -----        |
| CASH AND CASH EQUIVALENTS - End of Year  | \$ 7,043     |
|  | =====        |
| RECONCILIATION OF NET INCOME TO NET CASH FLOWS<br>FROM OPERATING ACTIVITIES        |              |
| Net Income (Loss)  | \$ (416,836) |
| Adjustments to reconcile net income<br>to net cash flows from operating activities |              |
| Noncash items included in income   |              |
| Depreciation   | 162,847      |
| Nonoperational items included in income  |              |
| Loss (gain) on asset disposal  | 2,247        |
| Changes in noncash components of working capital                                   |              |
| Accounts receivable  | 136,124      |
| Other receivables  | 10,469       |
| Inventories  | 275,395      |
| Other current assets   | 26,392       |
| Accounts payable and other current liabilities                                     | (36,056)     |
|  | -----        |
| NET CASH FLOWS FROM OPERATING ACTIVITIES   | \$ 160,582   |
|  | =====        |

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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.

By: /s/ Brock Koren

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Brock Koren, President and Chief  
Executive Officer

Dated: September 3, 2002