ADVANCED PHOTONIX INC
Form 10KSB
June 26, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 30, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number 1-11056

ADVANCED PHOTONIX, INC.(R)
(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 No.)

1240 Avenida Acaso, Camarillo, CA 93012
(Address of principal executive offices) (Zip Code)

(805) 987-0146
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, $.001 Par Value
Class A Common Stock

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 [X] No [ ]

Total revenues for registrant's fiscal year ended March 30, 2003 were $9,146,743.

As of June 19, 2003, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $13,800,000.

As of June 19, 2003 there were 13,376,092 shares of Class A Common Stock and 31,691 shares of Class B Common Stock outstanding.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in any definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

Item 1. Business

General

Advanced Photonix, Inc. (R) (the "Company"), was incorporated under the laws of the State of Delaware in June 1988. The Company is engaged in the development and manufacture of custom optoelectronic solutions, serving a variety of global Original Equipment Manufacturer (OEM) markets. While the Company specializes in silicon-based custom photodiode assemblies, its product families range from custom light detection assemblies, including its patented Avalanche Photodiode technology, to light emitting diode (LED) assemblies. The Company supports the customer from the initial concept and design phase of the product, through to full-scale production and test. The Company has two manufacturing and wafer fabricating facilities; one in Camarillo, CA and one in Dodgeville, WI.

Products & Technologies

The Company designs and manufactures silicon-based optoelectronic components and assemblies for a global OEM customer base. The core technology used in the majority of the Company's products is silicon-based photodiodes. Photodiodes sense light of varying wavelengths and intensity and convert that light into electrical signals. The Company manufactures photodiodes of varying complexity, from basic PIN (positive-intrinsic-negative) photodiodes to the more sophisticated LAAPD (large area avalanche photodiode). The avalanche photodiode is a specialized silicon photodiode capable of detecting very low light levels due to an internal gain phenomenon known as avalanching. All devices are designed by our experienced engineering staff, and fabricated in two state-of-the-art clean rooms. The Company's basic products and technologies include the following:

- PIN photodetectors - spectrally enhanced, both single and multi-element
- Silicon High Resistivity p-type Detectors
- Photodetector hybrids, which include signal amplification circuitry within the detector package
- Custom light-emitting diode ("LED") assemblies and LED displays
- FILTRODE(R) - patented technology integrating optical filters directly on photodiode chips
- Small area avalanche photodiodes (SAAPDs)
- Large area avalanche photodiodes (LAAPDs) - discrete, with and without thermoelectric coolers, and with integrated modules

Markets

These products serve customers in a variety of global markets. The target markets and applications served by the Company are as follows:

Military & Aerospace:
- Missile guidance

- o Laser range finders
- o Optical proximity fuse
- o Heads-up displays
- o Satellite positioning

Industrial & Commercial:
- o Optical encoders
- o Laboratory Instrumentation
- o X-ray baggage scanners
- o Bar code scanners
- o Laser positioning systems

Medical:
- o Blood analysis
- o Medical diagnostics
- o Medical imaging

Automotive:
- o Laser detectors and jammers
- o Collision avoidance
- o Automatic power windows

Communications:
- o Feedback detectors for laser diodes
- o InGaAs optical monitors
- o Wireless communications

One of the key competitive advantages held by the Company is its ability to supply detector assemblies for high reliability ("Hi-Rel") applications, including military and commercial aerospace. Hi-Rel devices are designed, manufactured and tested to function in severe environmental conditions. The Company has many years of experience in supplying Hi-Rel devices that demand modern wafer fabrication techniques, a dedicated assembly area, and a sophisticated test lab. These assembly and test capabilities meet several military approvals, including MIL-PRF-19500, MIL-STD-883 and MIL-STD-750. Hi-Rel products manufactured by the Company include:

- o Multi-element hybrid assemblies used on the U.S. Navy's Rolling Airframe Missile (RAM) developed by Raytheon
- o Narrow and wide field of view detectors used in various Tube-launched Optically-tracked Wire-guided (TOW) missile tracking systems
- o LED arrays for use in thermal image displays in military night sight applications
- o Quadrant photodetectors used in the autocollimator for airborne navigation/FLIR (Forward Looking Infrared) pods and "smart bombs"
- o Opto assemblies for biological and blood analysis
- o Assemblies used in automotive distance control systems

Raw Materials

The principal raw materials used by the Company in the manufacture of its semiconductor components and sensor assemblies are silicon wafers, chemicals and gases used in processing wafers, gold wire, lead frames, and a variety of packages and substrates, including metal, printed circuit board, flex circuits, ceramic and plastic packages. All of these raw materials can be obtained from several suppliers. From time to time, particularly during periods of increased industry-wide demand, silicon wafers and other materials have been in short supply. However, the Company has not been materially affected by such shortages. As is typical in the industry, the Company allows for a significant lead-time (2 months or greater) between order and delivery of raw materials.

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Research and Development

Since its inception in June 1988, the Company has incurred material research and development expenses, with the intent of commercializing these investments into profitable new standard and custom product offerings. During the fiscal years ended in 2003 and 2002, research and development expenses amounted to $511,000 and $467,000 respectively. The Company expects that continued research and development funding will be required for new projects as well as the continuing development of new derivatives of the Company's current product line, and for the commercialization of these products. The Company has in the past, and may in the future, undertake customer funded, as well as internally funded, research and development projects when they are in support of the Company's development objectives.

As the Company has completed the initial development and commercialization of its LAAPD technology, it has reduced outlays for research and development. The Company continues to conduct research on avalanche photodiodes. Much of the emphasis in APD development has shifted toward established markets for this technology, leveraging the development knowledge already held by the Company. It is also pursuing ways to reduce the cost of manufacturing the LAAPD, and to improve its performance, lending it increased adaptability for customers who currently use photomultiplier tubes (PMTs).

Projects currently underway in research and development include:

- LAAPD arrays - the Company's patented technology in which the rear surface of an LAAPD is segmented to create isolated pixels, each with a separate electronic lead to be accessed in parallel fashion for imaging applications.

- Silicon PIN diodes, which are being developed to meet unique customer requirements, such as higher speeds, lower electrical noise, and unique multi-element geometries.

- Additional applications leveraging the Company's patented Filtrode(TM) family, integrating a variety of filters onto a detector chip

- Position Sensitive Devices - the Company is broadening its offering of these devices with improved performance for industrial sensing markets.

Environmental Regulations

The photonics industry, as well as the semiconductor industry in general, is subject to governmental regulations for the protection of the environment, including those relating to air and water quality, solid and hazardous waste handling, and the promotion of occupational safety. Various federal, state and local laws and regulations require that the Company maintain certain environmental permits. The Company believes that it has obtained all necessary environmental permits required to conduct its manufacturing processes. Changes in the aforementioned laws and regulations or the enactment of new laws, regulations or policies could require increases in operating costs and additional capital expenditures and could possibly entail delays or interruptions of operations.

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Backlog and Customers

The Company's sales are made primarily pursuant to standard purchase orders for delivery of products. However, by industry practice, orders may be canceled or modified at any time. In such cases the customer is responsible for all finished goods, all costs, direct and indirect, incurred by the Company, as well as a reasonable allowance for anticipated profits. No assurance can be given that the Company will receive these amounts after cancellation. The current backlog contains only those orders for which the Company has received a confirmed purchase order and also includes contracts which have scheduled shipping dates beyond the upcoming fiscal year. As such, the current backlog represents only a portion of expected annual revenues for fiscal year 2004. At the end of fiscal 2003, the Company had approximately $7.8 million in backlog as compared to backlog of approximately $10.5 million at the end of fiscal 2002. The reduction in backlog during fiscal 2003 can be attributed to orders that were removed from the backlog after Management's assessment that these orders, primarily from the telecom sector, are no longer valid.

Customers normally purchase the Company's products and incorporate them into products that they in turn sell in their own markets on an ongoing basis. As a result, the Company's sales are dependent upon the success of its customers' products and its future performance is dependent upon its success in finding new customers and receiving new orders from existing customers.

Marketing

The Company markets its products in the United States and Canada through its own technical sales engineers and through independent sales representatives. International sales, primarily to Europe and the Pacific Rim, are conducted through foreign distributors (see Note 1 to the Financial Statements). The Company's products are primarily sold as components or assemblies to original equipment manufacturers (OEM's). The Company markets it products and capabilities through industry specific channels, both on the internet and in print through trade journals.

Competition

The Company competes with a range of companies for the custom optoelectronic and silicon photodetector requirements of customers in its target markets. The Company believes that its principal competitors for sales of custom devices are small to medium size companies. Because the Company specializes in custom devices requiring a high degree of engineering expertise to meet the requirements of specific applications, it generally does not compete to any significant degree with other large United States, European or Pacific Rim manufacturers of standard "off the shelf" optoelectronic components or silicon photodetectors.

Proprietary Technology

The Company utilizes proprietary design rules and processing steps in the development and fabrication of its PIN photodiodes and avalanche photodiodes. In addition, the Company owns the following patents:

US PATENT NO.	DESCRIPTION	DATE ISSUED

6,111,299	Active Large Area Avalanche Photodiode Array	August 2000
6,005,276	Solid State Photodetector with Light Responsive Rear Face	December 1999
5,801,430	Solid State Photodetector with Light Responsive Rear Face	September 1998
5,757,057	Large Area Avalanche Array	May 1998
5,477,075	Solid State Photodetector with Light Responsive Rear Face	December 1995
5,311,044	Avalanche Photomultiplier Tube	May 1994
5,146,296	Devices for Detecting and/or Imaging Single Photoelectron	September 1992
5.057,892	Light Responsive Avalanche Diode	October 1991
5,021,854	Silicon Avalanche Photodiode Array	June 1991
4,782,382	High Quantum Efficiency Photodiode Devices	November 1988 (
4,717,946	Thin Line Junction Photodiode	January 1988 (b

There can be no assurance that any issued patents will provide the Company with significant competitive advantages, or that challenges will not be instituted against the validity or enforceability of any patent owned by the Company, or, if instituted, that such challenges will not be successful. The cost of litigation to uphold the validity and to prevent the infringement of a patent could be substantial. Furthermore, there can be no assurance that the Company's APD technology will not infringe on patents or rights owned by others, licenses to which might not be available to the Company. Based on limited patent searches, contacts with others knowledgeable in the field of APD technology, and a review of the published materials, the Company believes that its competitors hold no patents, licenses or other rights to the APD technology which would preclude the Company from pursuing its intended operations.

In some cases, the Company may rely on trade secrets to protect its innovations. There can be no assurance that trade secrets will be established, that secrecy obligations will be honored or that others will not independently develop similar or superior technology. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to Company projects, disputes might arise as to the proprietary rights to such information which may not be resolved in favor of the Company.

Employees

At June 19, 2003 the Company had 75 full time employees (including 3 officers) and 8 part time employees. Included are 7 engineering and development personnel, 7 sales and marketing personnel, 61 operations personnel, and 8 general and administrative personnel (including 3 officers). The Company may, from time to time, engage personnel to perform consulting services and to perform research and development under third party funding. In certain cases, the cost of such personnel may be included in the direct cost of the contract rather than in payroll expense.

Item 2. Properties

The Company leases its executive offices, research, marketing and manufacturing facilities that consist of approximately 55,000 square feet in two facilities. One is located at 1240 Avenida Acaso in Camarillo, California, leased through February 2004. The Company fully expects to extend the lease and is currently negotiating the terms of such lease extension. A second manufacturing facility is located at 305 County YZ, Dodgeville, Wisconsin, with a lease through November 2007. The Company also holds a lease on the prior Texas Optoelectronics facility in Garland, Texas. The facility is no longer operational, and the Company has terminated the lease effective September 2003. The Company believes that its existing facilities are adequate to meet its needs for the foreseeable future.

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Item 3. Legal Proceedings

None.

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

None.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

The Company's Class A Common Stock is traded on the American Stock Exchange ("AMEX") under the symbol "API".

At June 19, 2003, the Company had 105 holders of record for the Class A Common Stock (including shares held in street name), representing approximately 6,500 beneficial owners of the Class A Common Stock. On the same date, there were 6 holders of record of the Class B Common Stock (none of which were held in street name).

The following table sets forth high and low closing prices by quarter for fiscal years 2003 and 2002.

Quarterly Stock Market Data

	1st Quarter 2003	1st Quarter 2002	2nd Quarter 2003	2nd Quarter 2002	3rd Quarter 2003	3rd Quarter 2002	4 2003
Common Stock(1)							
High	1.66	1.35	1.00	1.09	.94	.82	1.5
Low	.95	.61	.60	.70	.66	.60	.8

1 Price ranges on the American Stock Exchange

The Company has not paid any cash dividends on its capital stock. The Company intends to retain earnings, if any, for use in its business and does not anticipate that any funds will be available for the payment of cash dividends on its outstanding shares in the foreseeable future. The holders of Common Stock will not be entitled to receive dividends in any year until the holders of the Class A Redeemable Convertible Preferred Stock receive an annual non-cumulative dividend preference of $.072 per share. To date, a total of 740,000 shares of

Class A Redeemable Convertible Preferred Stock have been converted into 222,000 shares of Class A Common Stock, leaving outstanding 40,000 shares of Class A Redeemable Convertible Preferred Stock. The aggregate non-cumulative annual dividend preference of such Class A Redeemable Convertible Preferred Stock is $2,880. There is no public market for the Company's Class A Redeemable Convertible Preferred Stock or Class B Common Stock; however, such stock is convertible into Class A Common Stock at the option of the holder and upon transfer by the holder of the Class A Redeemable Convertible Preferred Stock.

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Item 6. Management's Discussion and Analysis

Application of Critical Accounting Policies

Application of our accounting policies requires management to make judgments and estimates about the amounts reflected in the financial statements. Management uses historical experience and all available information to make these estimates and judgments, although differing amounts could be reported if there are changes in the assumptions and estimates. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, restructuring costs, impairment costs, depreciation and amortization, sales discounts and returns, warranty costs, taxes and contingencies. Management has identified the following accounting policies as critical to an understanding of our financial statements and/or as areas most dependent on management's judgment and estimates.

Revenue Recognition

We generally recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or readily determinable, and collectibility is probable. Sales are recorded net of sales returns and discounts. We recognize revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

Impairment of Long-Lived Assets

We continually review the recoverability of the carrying value of long-lived assets using the methodology prescribed in Statement of Financial Accounting Standards (SFAS) 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." We also review long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Upon such an occurrence, recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows to which the assets relate, to the carrying amount. If the asset is determined to be unable to recover its carrying value, then intangible assets, if any, are written down first, followed by the other long-lived assets to fair value. Fair value is determined based on discounted cash flows, appraised values or management's estimates, depending on the nature of the assets.

Deferred Tax Asset Valuation Allowance

We record a deferred tax asset in jurisdictions where we generate a loss for income tax purposes. Due to our history of operating losses, we have recorded a full valuation allowance against these deferred tax assets in accordance with SFAS 109, "Accounting for Income Taxes," because, in management's judgment, the deferred tax assets may not be realized in the foreseeable future.

Inventories

Our inventories are stated at standard cost (which approximates the first-in, first-out method) or market. Slow moving and obsolete inventories are analyzed quarterly. To calculate a reserve for obsolescence, we compare the current on-hand quantities with both the projected usages for a two-year period and the actual usage over the past 12 months. On-hand quantities greater than projected usage are calculated at the standard unit cost. The production, engineering and purchasing departments review the initial list of slow-moving and obsolete items to identify items that have alternative uses in new or existing products. These items are then excluded from the analysis. The remaining amount of slow-moving and obsolete inventory is then reserved for. Additionally, non-cancelable open purchase orders for parts we are obligated to purchase where demand has been reduced may be reserved. Reserves for open purchase orders where the market price is lower than the purchase order price are also established.

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Accounts Receivable and Allowance for Doubtful Accounts

The Allowance for Doubtful Accounts is established by analyzing each account that has a balance over 90 days past due. Each account is individually assigned a probability of collection. The total amount determined to be uncollectible in the 90-days-past-due category is then reserved fully. The percentage of this reserve to the 90-days-past-due total is then established as a guideline and applied to the rest of the non-current accounts receivable balance where appropriate. When other circumstances suggest that a receivable may not be collectible, it is immediately reserved for, even if the receivable is not yet in the 90-days-past-due category.

RESULTS OF OPERATIONS

Fiscal year 2003 Compared to Fiscal Year 2002

REVENUES

The Company's revenues for the fiscal year ended March 30, 2003 ("2003") were $9.147 million, an increase of $2.216 million, or 32%, from revenues of $6.931 million for the fiscal year ended March 31, 2002 ("2002").

The increase in net product sales reflects significant increases in shipments to customers in the industrial sensing, military/aerospace and medical segments, and is primarily attributable to revenues added as a result of the Company's acquisitions of Silicon Sensors, Inc. and Texas Optoelectronics, Inc., both of which occurred during fiscal 2003. During 2003, sales to the industrial sensing markets, which represent 44% of total revenues, increased 31% to $4.02 million, as compared to $3.06 million for fiscal year 2002. Sales to the military/aerospace markets, representing 36% of total revenues, increased 31% to $3.30 million, as compared to $2.52 million, during fiscal 2002. Likewise, sales to the medical markets, which represent 17% of total revenues, increased 29% to $1.52 million, compared to $1.18 million in fiscal year 2002.

The Company is pleased with the market diversification and stability that has been achieved as a result of the two acquisitions and continues to expect strong revenue growth in the military and medical markets. As the year end results include only a fractional year of revenue for both subsidiaries, we anticipate overall revenue growth of approximately 40% in the upcoming year, based on annualized sales projections of all divisions, and specific new projects coming on line during fiscal year 2004, through both existing and new customers. The current backlog and shipping schedule indicate that the majority of the growth will be realized during the latter half of the year.

COSTS AND EXPENSES

Cost of product sales increased to $6.45 million in 2003 from $4.17 million in 2002. Cost of product sales as a percent of net sales increased by ten percentage points and gross profit margin on net product sales decreased 10 percentage points to 30% as compared to 40% in 2002. The reduction in gross margin is primarily attributable to increased material and overhead costs experienced throughout the Company, part of which are inherent costs assumed through the acquisition of subsidiaries. Material and labor costs as a percentage of net sales increased to 30% and 7%, respectively, as compared to 21% and 5% in the prior year. The company-wide increases in material costs are attributable to heightened competitiveness in the marketplace over the past year which has caused us to absorb increases in certain material costs while maintaining existing pricing in our efforts to generate new business as well as retain existing business. In addition, inherited cost structures of certain subsidiary contracts contributed to the overall increase in material costs. The costs of maintaining three manufacturing facilities resulted in increased labor and overhead costs which the Company plans to reduce in the upcoming year. As the Company has completed the closing of the Garland, Texas facility and has only building lease obligations through September 2003, it has absorbed the manufacturing processes of that facility into the Dodgeville, Wisconsin and Camarillo, California locations and expects to see improved overhead rates as a result of improved asset utilization and operational efficiencies. Company management also expects to realize future improvements in material costs through leveraging our buying power through consolidation of operations and overall improvements in cost of sales through our continued efforts to increase sales and control both direct and indirect costs of manufacturing. The Company expects these savings from consolidation to provide the foundation for profitable operations in the future.

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Research and development ("R&D") costs increased by $44,000 (9%) to $511,000 during 2003 compared to 2002. R & D costs have fluctuated slightly over the past two years as we implemented planned reductions in overall R&D expenditures during fiscal year 2002. During 2003, R & D expenditures were focused primarily on developing value added enhancements and additional product offerings to our line of PIN and core technology products as well as on improvements to the current line of LAAPD array products. In the past, the primary use of R&D resources has been to develop a base family of proprietary LAAPD products. As the primary development phase of the LAAPD technology has been completed, we have narrowed our LAAPD expenditures to those products which will satisfy existing needs in the marketplace. In the upcoming year, the Company will go forward with its planned reductions and expects to further reduce R & D expenditures as resources are shifted toward the support of custom optoelectronic projects in our target markets. However, the possibility exists that R&D costs may fluctuate or even increase, as they have in the past, should the level of activity associated with customer-requested development contracts increase significantly.

Marketing and sales expenses increased by $117,000 (12%) to $1.085 million in 2003. The increase in marketing and sales expense is due primarily to increased absorption of expenses resulting from the Company's acquisitions during the current fiscal year (see Note 2). Excluding the impact of the subsidiary expenses, year to date marketing and sales expenses were $46,000 less than the prior year, a result of decreased recruitment, advertising, marketing and outside representative sales commission expenses which were partially offset by increases in benefits and bad debt expenses. To insure that we can adequately serve our consolidated customer base, we expect that marketing and sales expenses will remain at the same level throughout the upcoming year.

Total general and administrative expenses increased by $162,000 (9%) to $1.974 million in 2003 as compared to $1.812 million in 2002 (which included acquisition investigation expenses of $616,000). Total general and administrative expenses for 2003 include non-recurring charges totaling $237,000 which relate to the resignation and severance agreement with the Company's former President and Chief Executive Officer, who resigned in February 2003. Excluding the impact of additional expenses directly attributable to the Company's subsidiaries ($427,000) and one-time charges described above ($237,000), general and administrative expenses were $1.31 million, or $114,000 higher than the $1.196 million reported in 2002 (exclusive of non-recurring charges during that year of $616,000). The net increase in general and administrative expenses is primarily due to increased legal and insurance costs. The Company's legal fees increased $65,000 over the prior year due to the development and implementation of a shareholder rights agreement and other miscellaneous issues. As noted throughout the year, the Company has continued to realize increases in liability insurance premiums and experienced a $48,000 increase in its Directors & Officers liability premiums during 2003. General and administrative expenses are expected to remain at approximately the same level during fiscal year 2004.

Interest income for 2003 totaled $70,000, a decrease of $133,000 over 2002. Interest expense for the year was $13,000, as compared to $0 in 2002. The decrease in interest income is primarily due to consistently lower interest rates in addition to lower cash reserves available for investment. The increase in interest expense is due to obligations assumed through the acquisition of Texas Optoelectronics, Inc.

Net loss for fiscal year 2003 was ($803,000), or $519,000 greater than the net loss of ($284,000) reported in fiscal year 2002. Excluding the impact of the one-time severance charges, net loss for 2003 would be ($566,000), or $282,000 greater than net loss reported for 2002.

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LIQUIDITY AND CAPITAL RESOURCES

At March 30, 2003, the Company had cash, cash equivalents and short-term investments of $2.3 million, working capital of $4.8 million and an accumulated deficit of $19.0 million. The Company's cash, cash equivalents and short-term investments decreased $2.181 million during the twelve months ended March 30, 2003. $76,000 was obtained through the issuance and exercise of stock options and $390,000 was used by operating activities. Operating cash flow was impacted by a decrease in inventories of $891,000, due to the usage of materials purchased in the prior year to meet several long-term production contracts which began to ship in 2003, and by increases in accounts receivable and other assets totaling $506,000.

$1.799 million was expended during the year as the Company formed a new subsidiary, Silicon Sensors, Inc., and purchased the business (including selected net assets and liabilities) of Silicon Sensors, LLC, a privately owned manufacturer of optoelectronic devices, located in Dodgeville, Wisconsin (see Note 2).

Other capital spending during 2003 totaled $68,000 compared to $417,000 during 2002. All capital expenditures during 2003 were due to necessary equipment upgrades and/or replacements. The amount expended for capital items in 2002 was primarily due to the purchase of a new Enterprise Resource Planning (ERP) system, which was installed during that year. The Company anticipates that cash outlays for capital items will be approximately $200,000 during fiscal year 2004, the largest portion of which will be for production equipment upgrades and enhancements. The remainder will be spent on the installation of both hardware and software components of a wide area network (WAN) communication system which will be utilized to enhance efficiencies between the two facilities.

The Company is exposed to interest rate risk for marketable securities. Due to continually declining interest rates available to the Company pursuant to its investment policy, the Company was able to achieve the best yields on liquid money market and equity fund accounts and thus transferred the majority of its available cash reserves from longer term investment instruments to such accounts during the year. At March 30, 2003, the Company held $1.4 million in a highly liquid equity fund account which carried an average interest rate of 1.3%. During 2004, the Company will continue to monitor available interest rates and will attempt to utilize the best possible avenues of investment for its excess liquid assets.

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.

Item 7. Financial Statements and Supplementary Data

The following financial statements of Advanced Photonix, Inc. are included in Item 7:

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of Advanced Photonix, Inc.:

We have audited the accompanying consolidated balance sheet of Advanced Photonix, Inc. (the "Company") as of March 30, 2003 and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended March 30, 2003 and March 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 30, 2003 and the results of its operations and its cash flows for the years ended March 30, 2003 and March 31, 2002 in conformity with accounting principles generally accepted in the United States.

/s/ Farber & Hass LLP
June 6, 2003

ADVANCED PHOTONIX, INC.

CONSOLIDATED BALANCE SHEET
MARCH 30, 2003

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 902,000
Short-term investments	1,400,000
Accounts receivable, less allowance of $92,000	2,204,000
Inventories	2,628,000
Prepaid expenses and other current assets	317,000
Total current assets	7,451,000
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost	4,754,000
Less accumulated depreciation and amortization	(3,212,000)
Equipment and leasehold improvements, net	1,542,000
OTHER ASSETS:	
Goodwill, net of accumulated amortization of $353,000	2,410,000
Patents, net of accumulated amortization of $44,000	19,000
Non-Compete Agreement, net of accumulated amortization Of $44,000	106,000
Security deposits	24,000
Total other assets	2,559,000
TOTAL ASSETS	$ 11,552,000

(Continued)

ADVANCED PHOTONIX, INC.

CONSOLIDATED BALANCE SHEET - Continued
MARCH 30, 2003

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:	
Line of Credit	$ 1,200,000
Accounts payable	536,000
Accrued salaries, wages and benefits	430,000
Current portion of capital lease payable	43,000
Note Payable	12,000
Other accrued expenses	419,000
Total current liabilities	2,640,000

Capital Lease Payable, net of current portion	22,000
COMMITMENTS AND CONTINGENCIES	
Class A Redeemable Convertible Preferred Stock, $.001 par value; 780,000 shares authorized; 40,000 shares issued and outstanding	32,000
SHAREHOLDERS' EQUITY:	
Preferred stock, $.001 par value; 10,000,000 shares authorized; 780,000 shares designated Class A redeemable convertible; no shares issued and outstanding	--
Class A common stock, $.001 par value; 50,000,000 shares authorized; 13,369,258 shares issued and outstanding; 5,807,992 shares reserved for future issuance	13,000
Class B common stock, $.001 par value; 4,420,113 shares authorized; 31,691 shares issued and outstanding	--
Additional paid-in capital	27,625,000
Accumulated deficit	(18,780,000)
Total shareholders' equity	8,858,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 11,552,000

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 30, 2003 AND MARCH 31, 2002

	2003	2002
SALES	$9,147,000	$6,931,000
COST OF GOODS SOLD	6,448,000	4,170,000
GROSS PROFIT	2,699,000	2,761,000
RESEARCH AND DEVELOPMENT EXPENSES	511,000	467,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,058,000	2,165,000
ACQUISITION INVESTIGATION EXPENSES	--	616,000
LOSS FROM OPERATIONS	(870,000)	(487,000)

OTHER INCOME (EXPENSE):		
Interest income	70,000	203,000
Interest expenses	(13,000)	--
Other, net	5,000	2,000
Other income, net	62,000	205,000
LOSS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(808,000)	(282,000)
PROVISION (BENEFIT) FOR INCOME TAXES	(5,000)	2,000
NET LOSS	$ (803,000)	$ (284,000)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	$ (0.06)	$ (0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	12,356,349	12,208,992

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED MARCH 30, 2003 AND MARCH 31, 2002

	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-in Capital Amount	Accu De
BALANCE, MARCH 25, 2001	12,207,648	$12,000	31,691	$ -0-	$26,573,000	$(17
EXERCISE OF OPTIONS	4,000				3,000	
UNREALIZED GAIN ON INVESTMENTS						
NET LOSS						
NET COMPREHENSIVE LOSS						
BALANCE, MARCH 31, 2002	12,211,648	12,000	31,691	-0-	26,576,000	(17
OPTIONS ISSUED TO ACQUIRE SSI (Below market price)					5,000	
EXERCISE OF OPTIONS	98,500				71,000	

SHARES ISSUED TO ACQUIRE TOI ASSETS	1,059,110	1,000			973,000	
NET LOSS						
BALANCE, MARCH 30, 2003	13,369,258	$13,000	31,691	$ -0-	$27,625,000	$(18

See notes to consolidated financial statements.

ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 30, 2003 AND MARCH 31, 2002

	2003	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (803,000)	$ (2
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	192,000	2
Amortization	48,000	
Provision for doubtful accounts	40,000	
Provision for obsolete inventory	(14,000)	
Changes in operating assets and liabilities:		
Short-term investments	(398,000)	
Accounts receivable	(359,000)	(1
Inventories	891,000	(8
Prepaid expenses and other current assets	(79,000)	
Other assets	(147,000)	
Accounts payable	146,000	
Accrued expenses	93,000	
Net cash used by operating activities	(390,000)	(8
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(68,000)	(4
Intangible assets acquired	--	
Purchase of selected net assets of Silicon Sensors, LLC	(1,799,000)	4
Net cash provided by (used by) investing activities	(1,867,000)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise and issuance of stock options	76,000	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,181,000)	(8

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,083,000	3,9
CASH AND EQUIVALENTS, END OF YEAR	$ 902,000	$3,0

(Cont

ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
FOR THE YEARS ENDED MARCH 30, 2003 AND MARCH 31, 2002

	2003	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 13,000	$
Cash paid for taxes	$ 1,600	$ 1

NON-CASH FINANCING ACTIVITY: In January 2003, the Company purchased all of the issued and outstanding common stock of Texas Optoelectronics Inc. (see Note 2). In connection with the purchase, the Company incurred a secured debt of $1,200,000 with an investment brokerage company.

See notes to consolidated financial statements.

ADVANCED PHOTONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description - Advanced Photonix, Inc. (the "Company" or "API"), is engaged in the development and manufacture of optoelectronic semiconductor based components, hybrid assemblies and other proprietary solid state light and radiation detection devices, including proprietary advanced solid state silicon photodetection devices which utilize Avalanche Photodiode ("APD") technology. API is located in Camarillo, California.

The Company's wholly-owned subsidiary, Silicon Sensor, Inc. ("SSI") (see Note 2 - Acquisitions) manufactures silicon photodiodes and optical sub-assemblies in a manufacturing facility in Dodgeville, Wisconsin.

The Company's wholly-owned subsidiary, Texas Optoelectronics, Inc. ("TOI") (see Note 2 - Acquisitions), manufactured optical sub-assemblies in a facility in Garland, Texas. The Company shut down the Garland facility in May 2003 and relocated the TOI assets to the Company's facilities in Dodgeville, Wisconsin and Camarillo, California.

Principles of Consolidation - The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Fiscal Year-End - The Company's fiscal year ends on the last Sunday in March. Fiscal years in the two-year period ended March 30, 2003, contain fifty-three weeks and fifty-two weeks, respectively.

Operating Segment Information - The Company predominantly operates in one industry segment, light and radiation detection devices. Substantially all of the Company's assets and employees are located at the Company's facilities in Camarillo, California and Dodgeville, Wisconsin.

In fiscal 2003 and 2002, the Company had export sales of approximately $1,848,000 and $1,590,000, respectively, to customers in North America, Asia, Australia and Europe.

Fair Value of Financial Instruments - The carrying value of all financial instruments potentially subject to valuation risk (principally consisting of cash equivalents, accounts receivable and accounts payable) also approximates fair value.

Cash and Cash Equivalents - The Company considers all highly liquid investments, with an original maturity of three months or less when purchased, to be cash equivalents.

Short-Term and Long-Term Investments - SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", requires that all debt and marketable equity securities be classified in one of three categories: trading, available-for-sale, or held-to-maturity. It is the Company's intent to maintain a diverse portfolio to take advantage of investment opportunities. The Company has classified all investments as current assets, which includes available-for-sale and held-to-maturity. Available-for-sale investments are redeemable within one year. Held-to-maturity securities are callable government issues; however, market rates make the call remote and the Company has the intent and ability to not redeem the issue.

Available-for-sale securities are recorded at market value. Unrealized holding gains and losses, net of the related income tax effect, are excluded from earnings and are reported as a separate component of shareholders' equity until realized. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. At the time of sale, any realized gains or losses, calculated by the specific identification method, are recognized as a component of operating results.

Held-to-maturity securities are carried at amortized cost.

Short-term and long-term investments consist of the following as of

March 30, 2003:

	Cost	Fair Value	Holding Gain/(Losses)
Cash		$ 493,000	$-0-
Mutual Funds	$ 6,000	6,000	-0-
Equity securities	1,400,000	1,400,000	-0-
Totals	$1,406,000	$1,899,000	$-0-

All of the Company's short-term investments as of March 30, 2003 are due within one year.

Concentration of Credit Risk - Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, short-term investments and accounts receivable. The Company maintains cash balances at a financial institution that is insured by the Federal Deposit Insurance Corporation up to $100,000. As of March 30, 2003, the Company had cash equivalents at a financial institution in excess of Federally insured amounts. The Company invests in short-term and long-term investments, primarily consisting of Mutual Funds and Government Securities. Approximately 0.3% of the Company's investments are invested in Mutual Funds. 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. As of March 30, 2003, two customers comprised 13% and 13%, respectively, of accounts receivable.

Accounts Receivable - Accounts receivable are reported at the customers' outstanding balances less any allowance for doubtful accounts. Interest is not accrued on overdue accounts receivable. The Company does require advance payments on certain large orders.

Allowance for Doubtful Accounts - The allowance for doubtful accounts on accounts receivable is charged to income in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers. Accounts receivable are charged off against the allowance when collectibility is determined to be permanently impaired (bankruptcy, lack of contact, account balance over one year old, etc.)

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 March 30, 2003:

Raw material	$2,498,000
Work-in-process	656,000
Finished products	483,000

Total inventories	3,637,000
Less reserve	(855,000)
Progress bill inventory	(154,000)
Inventories, net	$2,628,000

Equipment and Leasehold Improvements - Equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or lease term ranging from three to nine years.

Equipment and leasehold improvements consist of the following at March 30, 2003:

Machinery and equipment	$3,738,000
Furniture and fixtures	163,000
Leasehold improvements	271,000
Data processing equipment	249,000
Vehicles	26,000
Capitalized software	258,000
Construction-in-process	49,000
Total	$4,754,000

Long-Lived Assets - The Company recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In such circumstances, those assets are written down to estimated fair value. Long-lived assets consist primarily of goodwill and fixed assets.

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. Amortization expense was approximately $3,000 in fiscal 2003 and 2002, respectively.

Goodwill - The Company adopted Statement of Financial Accounting Standards ("SFAS") 142, Goodwill and Other Intangible Assets on April 1, 2002. Accordingly, on that date the Company ceased amortizing Goodwill and other intangible assets with an indefinite life. Prior to April 1, 2002 the Company amortized the excess of cost over the purchase price of acquired net assets on a straight-line basis over a 25-year period. Goodwill amortization expense was $33,000 in fiscal 2002. In accordance with SFAS 142, The Company annually evaluates the recoverability of goodwill by assessing whether the recorded value of the goodwill will be recovered through future expected operating results.

Revenue Recognition - Revenues from research and development cost reimbursement-type contracts are recorded as costs are incurred based upon the relationship between actual costs incurred, total estimated costs, and the amount of the contract or grant award. Estimation of costs are reviewed periodically and any anticipated losses are recognized in the period in which they first become determinable.

The Company uses the unit of delivery method for recognizing sales and cost of sales under production contracts. Provision for estimated losses, if any, is made in the period in which such losses are determined.

Advertising Expense - Advertising costs are expensed as incurred. Advertising expense was approximately $106,000 and $122,000 in fiscal 2003 and 2002, respectively.

Warranties - The Company typically warrants its products against defects in material and workmanship for a period of 90 days from the date of shipment. A provision for estimated future warranty costs is recorded when products are shipped. Warranty costs were approximately $15,000 and $13,000 in fiscal 2003 and 2002, respectively.

Net Income (Loss) Per Share - Net income (loss) per share calculations are in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". Accordingly, basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding for each year. Diluted earnings (loss) per share has not been presented in fiscal 2003 and 2002 as the impact is anti-dilutive.

Research and Development Costs - The Company charges all research and development costs, including costs associated with development contract revenues, to expense when incurred. Manufacturing costs associated with the development of a new fabrication process or a new product are expensed until such times as these processes or products are proven through final testing and initial acceptance by the customer. Costs related to revenues on non-recurring engineering services billed to customers are generally classified as cost of product sales.

Pervasiveness of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Accounting for Stock Option Based Compensation - SFAS No. 123, "Accounting for Stock Based Compensation", sets forth accounting and reporting standards for stock based employee compensation plans. As allowed by SFAS 123, the Company continues to measure compensation cost under Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and complies with the pro forma disclosure requirements of the standard (see Note 5).

New Accounting Pronouncements - In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company adopted this Statement on January 1, 2003.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". This Statement amends SFAS No. 123, "Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition of SFAS 148 are effective for fiscal years ending after December 15, 2002. The Company follows APB 25 in accounting for its employee stock options. The disclosure provision of SFAS 148 is effective for years ending after December 15, 2002 and have been incorporated into these consolidated financial statements and accompanying footnotes. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer of debt classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments as a liability (or an asset in some circumstances) instead of equity. The Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company will adopt this Statement on July 1, 2003. The Company does not believe that any of these recent accounting pronouncements will have a material impact on their financial position or results of operations.

2. ACQUISITION

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

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

3. CAPITALIZATION

The Company's Certificate of Incorporation provides for two classes of common stock, a Class A for which 50,000,000 shares are authorized for issuance and a Class B for which 4,420,113 shares are authorized for issuance. The par value of each class is $.001. Subject to certain limited exceptions, shares of Class B Common Stock are automatically converted into an equivalent number of Class A shares upon the sale or transfer of the Class B Common Stock by the original holder. The holder of each share of Class A and Class B Common Stock is entitled to one vote per share.

The Company has authorized 10,000,000 shares of Preferred Stock, of which 780,000 shares have been designated Class A Redeemable Convertible Preferred Stock with a par value of $.001 per share. 40,000 shares of Class A Redeemable Convertible Preferred Stock ("Class A Preferred") were issued and outstanding at March 25, 2001. The Class A Preferred Stock has a liquidation preference equal to its issue price ($.80 per share) and is convertible at any time, at the option of the holder, into .3 shares of Class B Common Stock for each share of Class A Preferred Stock converted. The Class A Preferred Stock is subject to redemption at the Company's option for $.80 per share at any time. The Company would be required to pay approximately $25,000 to redeem these shares. The holders of the Class A Preferred Stock are entitled to an annual non-cumulative dividend preference of $.072 per share when the Company's net earnings per share of Class A Preferred Stock equals or exceeds $.072. The Class A Preferred stockholders do not have voting rights except as required by applicable law.

4. INCOME TAXES

At March 30, 2003, the Company had net operating loss carryforwards of approximately $23 million for Federal income tax purposes and $4.1 million for state income tax purposes that expire at various dates through fiscal year 2022. The tax laws related to the utilization of loss carryforwards are complex and the amount of the Company's loss carryforward that will ultimately be available to offset future taxable income may be subject to annual limitations resulting from changes in the ownership of the Company's common stock.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 30, 2003 are substantially composed of the Company's net operating loss carryforwards, for which the Company has made a full valuation allowance.

The valuation allowance increased approximately $803,000 in the year ended March 30, 2003, representing primarily the net taxable loss for tax return purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

The tax benefit for the year ended March 30, 2003 is primarily composed of the California franchise tax credits.

5. STOCK OPTIONS

The Company has four stock option plans: The 1990 Incentive Stock Option and Non-Qualified Stock Option Plan, the 1991 Directors' Stock Option Plan ("The Directors' Plan"), the 1997 Employee Stock Option Plan and the 2000 Stock Option Plan. The Company measures compensation for these plans under APB Opinion No. 25. No compensation cost has been recognized as all options were granted at the fair market value or the greater of the underlying stock at the date of grant. Had compensation expense for these plans been determined consistent with SFAS No. 123, the Company's net income (loss) and net income (loss) per share would be as follows:

	2003	2002
Net income (loss), as reported	$(803,000)	$(284,000)
Net income (loss), pro forma	$(942,910)	$(310,000)
Basic income (loss) per share, as reported	$ (0.06)	$ (0.02)
Basic income (loss) per share - pro forma	$ (0.07)	$ (0.03)

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to April 3, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2003 and 2002, respectively: risk-free interest rates of 4% and 6%, expected volatility of 2.5% and 5% and expected lives of 10 years in all periods. No dividends were assumed in the calculations.

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.

Stock option transactions for 2003 are summarized as follows:

	Shares (000)	Weighted Average Exercise Price
Outstanding, beginning of year	2,090	$1.44
Granted	245	$0.63
Exercised	(99)	$0.72
Cancelled	(432)	$1.17
Outstanding, end of year	1,804	$1.44
Exercisable, end of year	1,463	$1.59

Information regarding stock options outstanding as of March 30, 2003 is as follows:

	Options Outstanding		
Price Range	(in 000s) Shares	Weighted Average Exercise Price	Weighted Average Remaining Life
$0.50 - $1.25	1,256	$0.73	6.25 years

$1.63 - $2.50	146	$1.98	4.66 years
$3.09 - $5.34	402	$3.45	6.72 years

	Options Exercisable	
Price Range	(in 000s) Shares	Weighted Average Remaining Life
$0.50 - $1.25	962	7.16 years
$1.63 - $2.50	100	5.10 years
$3.09 - $5.34	401	7.03 years

6. LINE OF CREDIT

The Company has a line of credit from an investment brokerage company which provides for borrowings up to 90% of the amount on deposit with that brokerage company ($1,899,000 at March 30, 2003). Minimum payments of a variable interest rate of 2.80% which is 1.50% above "LIBOR" (London Interbank Offered Rate). The line of credit is repayable upon demand and is secured by a brokerage account balance.

7. CAPITALIZED LEASE OBLIGATION

The Company has various capitalized lease obligations which provide for monthly payments of $6,037. The leases mature at varying dates through fiscal 2007 and are collateralized by certain equipment with a net book amount of approximately $82,000. Future payments on the lease obligation are as follows:

2004	$56,000
2005	18,000
2006	15,000
2007	2,000
Total minimum lease payments	$91,000
Less interest	(26,000)
Present value of net minimum lease payments	$65,000

8. NOTE PAYABLE

The Company entered into an agreement with a finance company to finance certain insurance premiums. The agreement calls for monthly payments of $3,991 including 8.0% interest. The note matures in June, 2003.

9. COMMITMENTS

The Company leases its manufacturing and office facility and certain office equipment under non-cancelable operating leases. Minimum future lease payments under all non-cancelable operating leases expiring at various dates through fiscal 2007, are as follows:

2004	$422,961
2005	74,220
2006	46,470
2007	7,620

Total	$551,271

Rent expense was approximately $362,000 and $349,000 in fiscal 2003 and 2002, respectively.

10. LEGAL

The Company is, from time to time, subject to legal and other matters in the normal course of its business. While the results of such matters cannot be predicted with certainty, management does not believe that the final outcome of any pending matters will have a material effect on the financial position and results of operations of the Company.

11. EMPLOYEES' RETIREMENT PLAN

The Company maintains a 401(k) Plan which is qualified under the Internal Revenue Code. All full-time employees are eligible to participate in the Plan. Employees may make voluntary contributions to the Plan which are matched by the Company at the rate of $.50 for every $1.00 of employee contribution, subject to certain limitations. The Company contributions and administration costs recognized as expense were approximately $64,000 and $62,000 in fiscal 2003 and 2002, respectively.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 9. Directors and Executive Officers

Set forth below is certain information relating to the directors and officers of the Company.

Name	Age	Position
Richard D. Kurtz	51	Chairman of the Board and Chief Executive Officer
M. Scott Farese	46	Director
Ward Harper	50	Director
Stephen P. Soltwedel	56	Director
Paul D. Ludwig	40	President
Susan A. Schmidt	37	Chief Financial Officer and Secretary

Richard D. Kurtz, Chairman of the Board and Chief Executive Officer

Mr. Kurtz became a Director of the Company in February 2000, was elected Chairman of the Board in July 2000, and was appointed Chief Executive Officer in February 2003. Prior to joining Advanced Photonix, he was Director of Client

Services and Strategic Planning for Quantum Compliance Systems Inc. a privately owned software company specializing in the development and installation of Environmental Health and Safety Management systems. Mr. Kurtz continues as an equity owner in Quantum and was employed there from July 2001 through February 2003. Prior to joining Quantum, Mr. Kurtz's career reflects 25 years in sales, marketing and strategic planning for various aerospace, automotive, distribution and medical companies. Most recently, he was Vice President of Sales and Marketing for Filtertek Inc. an ESCO Technology company for over 13 years.

M. Scott Farese, Director

Mr. Farese became a director of the Company in August 1998. He is currently a Business Unit Director for Filtertek Inc. Mr. Farese joined Filtertek in 1991. Filtertek, a subsidiary of ESCO Technologies, is the largest worldwide producer of custom filtration products and fluid control devices and the world's largest manufacturer of custom molded filter elements.

Ward Harper, Director

Mr. Harper became a director of the Company in May 2003. He is currently an attorney in private solo practice in Utah. Mr. Harper has been a practicing attorney for the past 14 years before the U.S. Court and U.S. Court of Appeals, Tenth Circuit. Prior to going into private practice, Mr. Harper was an Attorney/Advisor for U.S. Administrative Law Judges and was also the Attorney in charge of public benefits litigation for the Salt Lake City Office of Legal Services Corporation.

Stephen P. Soltwedel, Director

Mr. Soltwedel became a director of the Company in February 2000. Since 1972, he has been employed by Filtertek, Inc. and is currently Vice President and Chief Financial Officer. Prior to joining Filtertek, Mr. Soltwedel was employed by the public accounting firm of Baillies Denson Erickson & Smith in Lake Geneva, WI.

Paul D. Ludwig, President

Mr. Ludwig joined the Company in August 2002 through the acquisition of Silicon Sensors, LLC, where he was President and co-owner since 1996. Mr. Ludwig became the Chief Operating Officer of Advanced Photonix, Inc. at the time of acquisition and was promoted to President in February 2003. Prior to joining Silicon Sensors, Mr. Ludwig spent 11 years at Honeywell, Inc. holding sales, marketing and management responsibilities in their Sensing and Control group.

Susan A. Schmidt, Chief Financial Officer and Secretary

Ms. Schmidt joined the Company in March 2000. From 1997 to 2000, she was Director of Finance - Amphitheaters for SFX Entertainment, Inc. in Encino, CA. SFX was a New York-based promoter and producer of live entertainment events. From 1992 to 1997 she was Controller for Revchem Plastics, Inc., a privately held distribution company serving the reinforced plastics industry, and Durall Plastics, Inc., Revchem Plastics Inc.'s sister manufacturing company in Rialto, CA.

Directors serve annual terms until the next annual meeting of stockholders and until their successors are elected and qualified. Officers serve at the pleasure of the Board of Directors.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and Directors and persons who own more than ten percent of a registered class of the Company's equity securities (collectively the "Reporting Persons") to file reports of beneficial ownership and changes in beneficial ownership of the Company's equity securities with the Securities and Exchange Commission and to furnish the Company with copies of these reports. Based solely on its review of the copies of the forms received by it, the Company believes that all of its officers and directors complied with all filing requirements applicable to them, except with respect to the late filing of Form 3 by Paul Ludwig to report initial ownership of securities upon being appointed Chief Operating Officer on August 21, 2003, which was reported on September 10, 2003.

Item 10. Executive Compensation

The following table sets forth compensation paid or accrued by the Company for services rendered to the Company's Chief Executive Officer and to each of the other executive officers of the Company whose cash compensation exceeded $100,000 for services rendered during the last three fiscal years.

SUMMARY COMPENSATION TABLE

					Long Term Compensati	
		Annual Compensation			Awards	
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Awards ($)	Securities Underlying Options (#)
Richard D. Kurtz	2003	22,000	-	11,500	-	-
Chairman of the Board and	2002	n/a	n/a	10,000	-	245,000
Chief Executive Officer (2)	2001	n/a	n/a	10,000	-	150,000
Paul D. Ludwig	2003	97,000	-	4,000	-	100,000
President	2002	n/a	n/a	n/a	n/a	n/a
	2001	n/a	n/a	n/a	n/a	n/a
Brock Koren	2003	155,000	-	-	-	-
President and Chief Executive	2002	175,000	-	-	-	100,000
Officer (3)	2001	175,000	-	-	-	50,000

(1) Represents amounts paid by the Company on behalf of the named person in connection with the Company's benefits plans, 401(k) Retirement Plan, vacation pay and car allowance.
(2) Mr. Kurtz was appointed to the office of Chief Executive Officer in February 2003, following the resignation of Mr. Koren. Other annual compensation and securities underlying options reflect Director's fees and options granted as part of plans provided to outside directors.
(3) Mr. Koren resigned from his position as President in February 2003. Compensation continues through December 2003 under a severance agreement.

Employment Agreements

The Company has employment and termination agreements with certain current and former employees under which the employees may receive severance pay through the end of the term of the contract. The contract terms vary from 6 months to 3 years. Total compensation under these agreements in the event of unemployment through the full term would be approximately $562,000 in fiscal year 2004.

Stock Options

The following tables set forth certain information concerning stock options granted to the persons named in the Summary Compensation Table during the last fiscal year and unexercised stock options held by such persons at the end of such fiscal year.

Option Grants in Fiscal 2003

Individual Grants

Name (1)	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)
Richard D. Kurtz	-	-	-
Paul D. Ludwig	100,000	41%	$.61
Brock Koren	-	-	-

(1) See "Summary Compensation Table" and Item 9 "Directors and Executive Officers" for principal position.

Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values

Name (1)	Shares Acquired on Exercise (#)	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End (#) Exercisable/Unexercisable	Value In-th at Fis Exercis
Richard D. Kurtz	-	-	420,000 / -	$5
Paul D. Ludwig	-	-	20,000 / 80,000	$
Brock Koren	60,000	$8,500	- / -	

(1) See "Summary Compensation Table" and Item 9 "Directors and Executive Officers" for principal position.

Compensation of Directors

During 2003, each independent member of the Board of Directors received an annual retainer in the amount of $4,000, plus directors' fees in the amount of $1,000 for each board meeting attended, plus $500 for each committee meeting attended. In addition, all directors, including employee directors, are reimbursed for reasonable travel expenses incurred in connection with their attending meetings of the Board of Directors and committees. Each of the directors who is not an employee of the Company is also eligible for grants of stock options upon their appointment to the Board of Directors and all directors are eligible for stock option grants on a discretionary basis so long as they remain on the Board under the Advanced Photonix 2000 Stock Option Plan. Directors who are also officers of the Company do not receive cash compensation in consideration for their services as directors.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of June 20, 2003, certain information concerning the holdings of each person who was known by the Company to be the beneficial owner of more than five percent (5%) of the outstanding shares of Class A or Class B Common Stock of the Company, by each director and executive officers and by all directors and officers as a group.

	Class A Common Stock		
	Shares Owned	Shares Under Exercisable Options/Warrants(1)	Percent Voting(2)
Burke, Mayborn Co., Ltd.(3)	823,800	--	6.2
Richard D. Kurtz(4)	45,000	420,000	3.4
Stephen P. Soltwedel(4)	14,000	300,000	2.3
M. Scott Farese(4)	15,000	289,000	2.2
Paul D. Ludwig(4)	71,100	20,000	.7
Susan A. Schmidt(4)	500	77,334	.6
Directors & Officers as a	145,600	1,106,334	8.6

Group

(1) Includes shares under options exercisable on March 30, 2003 and options which become exercisable within 90 days thereafter.

(2) Represents voting power assuming beneficial owner exercises all exercisable options and warrants.

(3) Includes shares owned beneficially by Burke, Mayborn Co., Ltd. and Frank M. Burke, Jr. The address of this shareholder is 5500 Preston Road, Suite 315, Dallas, TX 75205.

(4) The address of this shareholder is c/o Advanced Photonix, Inc. 1240 Avenida Acaso, Camarillo, CA 93012.

The following table sets forth, as of March 30, 2003, the aggregated information pertaining to all securities authorized for issuance under the Company's equity compensation plans:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by shareholders	1,804,034	$1.44	757,889
Equity compensation plans not approved by shareholders	-	-	-
Total	1,804,034	$1.44	757,889

Item 12. Certain Relationships and Related Transactions

See Item 10. Executive Compensation.

Item 13. Exhibits and Reports on Form 8-K

(a) The following is a list of the financial statements, schedules and exhibits filed herewith.

(1) Financial Statements: No financial statements have been filed with this Form 10-KSB other than those listed in Item 7.

(2) Financial Statement Schedules: Schedules for which provisions are

made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, or are disclosed in the accompanying consolidated financial statements, or are inapplicable and, therefore, have been omitted.

(3) Exhibits:

Exhibit No.	Description
3.1	Certificate of Incorporation of the Registrant, as amended- incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on November 23, 1990
3.1.1	Amendment to Certificate of Incorporation of the Registrant, dated October 29, 1992-incorporated by reference to the Registrant's March 31, 1996 Annual Report on Form 10-K
3.1.2	Amendment to Certificate of Incorporation of the Registrant, dated September 9, 1992-incorporated by reference to the Registrant's March 31, 1996 Annual Report on Form 10-K
3.2	By-laws of the Registrant, as amended
4.1	Rights Agreement, dated September 19, 2002 by and between the Company and Continental Stock Transfer and Trust Company, Certificate of Designations for the Company's Series B Junior Preferred Stock - incorporated by reference to Exhibits 4.1 and 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 26, 2002

10.1*	Advanced Photonix, Inc. 1991 Special Directors Stock Option Plan - incorporated by reference to Exhibit 10.9 to the Registrant's March 31, 1991 Annual Report on Form 10-K
10.2*	Advanced Photonix, Inc. 1990 Incentive Stock Option and Non-Qualified Stock Option Plan - incorporated by reference to Exhibit No. 10.11 to the Registrant's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on November 23, 1990
10.3*	Advanced Photonix, Inc. 1997 Employee Stock Option Plan - incorporated by reference to Exhibit 10.13 to the Registrant's March 30, 1997 Annual report on Form 10-K
10.4*	Amendment No. 1 to 1997 Employee Stock Option Plan of Advanced Photonix, Inc. - incorporated by reference to Exhibit 10.14 to the Registrant's December 28, 1997 Quarterly report on Form 10-Q
10.5*	Advanced Photonix, Inc. 2000 Stock Option Plan - incorporated by reference to Exhibit 10.1 to the

	Registrant's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on March 15, 2001
10.9	Lease Agreement dated February 23, 1998 between Advanced Photonix, Inc. and High Tech No. 1, Ltd. - incorporated by reference to Exhibit 10.9 to the Registrant's March 29, 1998 Annual Report on Form 10-K
10.10	Form of Indemnification Agreement provided to Directors and Principal Officers of Advanced Photonix, Inc. - incorporated by reference to Exhibit 10.15 to the Registrant's December 28, 1997 Quarterly report on Form 10-Q
10.11*	Employment Agreement dated August 21, 2002 between Advanced Photonix, Inc. and Paul D. Ludwig - incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K as filed with the Securities and Exchange Commission on September 5, 2002
10.12*	Employment Agreement dated February 10, 2003 between Advanced Photonix, Inc. and Richard D. Kurtz
21.1	List of Subsidiaries of Registrant
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Additional Certifications of the Registrant's Chief Executive Officer, President, and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

*Constitutes a compensation plan or arrangement required to be filed as part of this report.

(3) Reports on Form 8-K:

The Company filed forms 8-K and 8-K/A on January 31, 2003 and April 2, 2003, respectively, to report the acquisition of Texas Optoelectronics, Inc. on January 17, 2003. The filings included the purchase agreement, financial statements and proforma financial information, as required.

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Item 14. Controls and Procedures

Our Chief Executive Officer, President, and Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Certifying Officers have designed such disclosure controls and procedures to ensure that material information is made known to them, particularly during the period in which this report was prepared. The Certifying Officers have evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days of the date of this report and believe that the Company's disclosure controls and procedures are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ Paul D. Ludwig

Date: June 26, 2003

Paul D. Ludwig, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard D. Kurtz Richard D. Kurtz	Chairman of the Board and Chief Executive Officer	June 26, 2003
/s/ M. Scott Farese M. Scott Farese	Director	June 26, 2003
/s/ Ward Harper Ward Harper	Director	June 26, 2003
/s/ Stephen P. Soltwedel Stephen P. Soltwedel	Director	June 26, 2003
/s/ Susan A. Schmidt Susan A. Schmidt	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	June 26, 2003