ADVANCED PHOTONIX INC
Form 8-K/A
July 18, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
AMENDMENT NO. 1

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): May 2, 2005

Advanced Photonix, Inc

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	1-11056	33-0325836
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(COMMISSION FILE NUMBER)	(IRS EMPLOYER 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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

As reported in Advanced Photonix, Inc.'s ("API") Current Report on Form 8-K dated May 2, 2005, API completed its previously disclosed acquisition of Picotronix, Inc, through the merger of Picotronix, Inc. (doing business as and referred to herein as "Picometrix"), a Michigan corporation, with and into Michigan Acquisition Sub, LLC ("Newco"), a Delaware limited liability company and a wholly-owned subsidiary of API, pursuant to an Agreement and Plan of Merger dated March 8, 2005 by and among API, Newco, Picometrix and Robin Risser and Steven Williamson, the stockholders of Picometrix. Immediately following the effective time of the merger, the name of Newco was changed to Picometrix, LLC.

This Amendment No. 1 to Current Report on Form 8-K dated May 2, 2005 is being filed to include the financial statements and pro forma financial information under Item 9.01 below relating to the acquisition of the Picometrix as described in such Current Report.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired. The following financial statements relating to Picometrix are included at the end of this Amendment No. 1 to Current Report on Form 8-K dated May 2, 2005 and are filed herewith and incorporated herein by reference.

AUDITED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Audited Balance Sheet as at December 31, 2004

Statements of Operations and Accumulated Deficit for the Years Ended December 31, 2004 and December 31, 2003

Statements of Cash Flows for the Years Ended December 31, 2004 and December 31, 2003

Consolidated Statements of Shareholders' Equity for the three years in the period ended December 31, 2004

Notes to Financial Statements

UNAUDITED INTERIM FINANCIAL STATEMENTS

Balance Sheet as at March 31, 2005

Statements of Cash Flows for the Three Months Ended March 31, 2005

Statements of Operations an Accumulated Deficit for the Three Months Ended March 31, 2005

(b) Pro Forma Financial Information. The following unaudited pro forma financial statements of Advanced Photonix, Inc. relating to the acquisition of Picometrix are included at the end of this Amendment No. 1 to Current Report on Form 8-K dated May 2, 2005 and are filed herewith and incorporated herein by reference.

Summary of Combined Company Unaudited Pro Forma Condensed Consolidated Statements of Operations

Unaudited Pro Forma Condensed Consolidated Balance Sheet as at March 27, 2005

Unaudited Pro Forma Condensed Consolidated Statements of Operations for the Year Ended March 27, 2005

(c) Exhibits: None

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Picotronix, Inc.:

We have audited the accompanying balance sheets of Picotronix, Inc. (the "Company") as of December 31, 2004 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years ended December 31, 2004 and 2003. 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 the Standards of the Public Company Accounting Oversight Board (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 financial statements present fairly, in all material respects, the financial position of the Picotronix, Inc. at December 31, 2004 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States.

Farber & Hass LLP
May 26, 2005
Camarillo, California

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PICOTRONIX, INC.
AUDITED BALANCE SHEETS

	DECEMBER 31
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,0
Restricted Cash	2
Accounts receivable, net of allowance for doubtful accounts of $2,184	1,2
Inventories, net of reserve for obsolescence of $216,006	6
Prepaid expenses and other current assets	1
Deferred tax asset, current portion, net of valuation allowance of ($688,721)	3
Total current assets	3,7
Property and equipment:	
Leasehold improvements	1
Machinery and equipment	3,8
Furniture and fixtures	5
	4,5
Accumulated depreciation	(2,5
	2,0

Other assets:	
Deposits and other assets	
Patents, net of accumulated amortization of $7,091	4
Total assets	$ 6,2
LIABILITIES AND SHAREHOLDERS' DEFICIENCY	
Total current liabilities	
Accounts payable:	
Trade	2
Income taxes payable	
Accrued liabilities:	
Compensation and related withholdings	2
Interest payable	
Consulting	
Deferred Revenue	2
Other	1
Current portion of long-term debt	1
Total liabilities	1,2
Long-term debt, less current portion	6,9
Total liabilities	8,1
Shareholders' deficit:	
Class A common stock, non-voting, no par value, 2,520,000 shares authorized and reserved for future issuance, zero shares issued and outstanding	
Class B common stock, voting, no par value; 15,480,000 shares authorized, 15,480,000 issued and outstanding	
Accumulated deficit	(1,8
Total shareholders' deficit	(1,8
Total liabilities and shareholders' deficit	$ 6,2

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PICOTRONIX, INC. STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	DECEMBER 31, 2004
Net sales	$ 7,473,404
Cost of products sold	2,311,104
Gross profit	5,162,300
Selling, general and administrative expenses	1,703,389
Research and development expenses	2,574,997

	4,278,386
Income (loss) from operations	883,914
Other income (expense):	
Interest expense	(297,795)
Loss on impairment of property and equipment	-
Other	(42,039)
Income (loss) before income taxes	544,080
Federal income taxes (benefit):	
Current	5,889
Deferred	(349,979)
Total provision (benefit) for income taxes	(344,090)
Net income (loss)	888,170
(Accumulated deficit) retained earnings at beginning of year	(2,752,561)
Accumulated deficit at end of year	$ (1,864,391)

See accompanying notes.

PICOTRONIX, INC.
STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31 2004	2003
OPERATING ACTIVITIES		
Net income (loss)	$ 888,170	$(2,083,222)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	568,441	779,756
Loss on impairment of property and equipment	-	104,689
Deferred income tax benefit	(349,979)	-
Changes in operating assets and liabilities:		
Income taxes	5,889	209,567
Prepaid expenses	67,181	(90,581)
Accounts payable, accrued expenses, and other	41,760	(58,870)
Deposits and other assets	11,785	(7,003)
Inventories	(277,933)	42,519
Accounts receivable	(857,394)	32,109

Net cash provide by (used by) operating activities	97.920	(1,071,036)
INVESTING ACTIVITIES		
Purchases of property and equipment	(110,678)	(106,689)
Patents	(264,918)	(202,224)
Net cash used in investing activities	(375,596)	(308,913)
FINANCING ACTIVITIES		
Payments on capital lease obligation	(52,232)	(62,328)
Net borrowings from finance companies and state agencies	750,000	
Net repayments to finance companies	229,840	41,271
Proceeds from issuance of common stock	-	19,440
Net cash (used in) provided by financing activities	927,608	(1,617)
Net (decrease) increase in cash	649,932	(1,381,566)
Cash at beginning of year	635,006	2,016,572
Cash at end of year	$ 1,284,938	$ 635,006
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash refunded for income taxes	$ -	$ 209,567
Cash paid for interest	$ 173,365	$ 233,206

SUPPLEMENTAL DISCLOSURE OF NON CASH OPERATING, INVESTING AND FINANCING ACTIVITIES

See accompanying notes.

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PICOTRONIX, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For each of the three years in the period ended December 31, 2004	CLASS B COMMON STOCK SHARES	AMOUNT	ACCUMULAT DEFICIT
BALANCE AT DECEMBER 31, 2002	13,536,000	3,000	(669,3
Shares issued for cash	1,944,000	19,440	
Net Loss			(2,083,2

BALANCE AT DECEMBER 31, 2003	15,480,000	22,440	(2,752,5
Shares issued			
Net profit			888,1
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BALANCE AT DECEMBER 31, 2004	15,480,000	22,440	(1,864,3

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PICOTRONIX, INC.
NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Picotronix, Inc., d.b.a. Picometrix, Inc. (the "Company") was incorporated on January 9, 1992 under the laws of the State of Michigan.

DESCRIPTION OF BUSINESS

The Company designs and manufactures ultra high-speed optical electronic (optoelectronic) components used for the detection and measurement of optical and electrical signals for the telecommunication, defense, and measurement markets and terahertz systems used for defense/homeland security, and industrial quality control markets.100% of sales in 2004 and 2003 were to customers located in the United States. Sales to government agencies account for 15% and 47% in 2004 and 2003 respectively.

FISCAL YEAR-END

The Company's fiscal year ends on December 31st. Fiscal years in the two-year period ended December 31st contains fifty-two weeks each.

OPERATING SEGMENT INFORMATION

The Company predominantly operates in one industry segment, hi-speed optoelectronic components and terahertz systems. Substantially all of the Company's assets and employees are located at the Company's facility in Ann Arbor, Michigan.

USE 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 disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all financial instruments potentially subject to valuation risk (principally consisting of cash equivalents, accounts receivable, accounts payable, notes receivable and notes payable) approximates fair value based upon prevailing interest rates available to the Company.

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.

RECEIVABLES AND REVENUE RECOGNITION

Revenue is recognized at the time of shipment. Shipping and delivery costs are included in cost of sales.

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Accounts receivable are stated at amounts estimated by management to be the net realizable value. Credit terms are granted and periodically revised based upon evaluations of the customer's financial condition, with collateral generally not required. The Company reserves for doubtful accounts based upon past history or known billing disputes. The Company reviews all accounts receivable balances in determining its reserve estimate. The Company charges off accounts receivable when it becomes apparent that amounts will not be collected.

SHORT-TERM AND LONG-TERM INVESTMENTS

Statement of Financial Accounting Standards (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 area 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. The Company held no short-term or long-term investments as of December 31, 2004 The Company did have $51,614 invested in a money market account at December 31, 2004 which is included as a part of Cash and Cash Equivalents on the Balance Sheet.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and accounts receivable. The Company maintains cash balances at two financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. As of December 31, 2004, the Company had cash at two financial institutions in excess of Federally insured amounts. As excess cash is available, the Company invests in short-term and long-term investments, primarily consisting of Government Securities and Money Market instruments. 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 December 31, 2004, two customers comprised 18% and 15%, respectively, of accounts receivable. As of December 31, 2003, two customers comprised 25 % and 19%, respectively, of accounts receivable. For fiscal years 2004 and 2003, cash deposits held at financial institutions in excess of FDIC insured amounts were as follows:

2004	2003
$1,029,411	$ 334,018

SIGNIFICANT CUSTOMERS

During the fiscal year ended December 31, 2004, two customers represented 40% and 16%, respectively, of the Company's net sales. During the fiscal year ended December 31, 2003, two customers represented 29% and 20%, respectively, of the Company's net sales.

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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 December 31, 2004.

	2004
Raw material	$ 844,467
Finished goods	24,047
Total inventories	868,514
Less reserve	(216,005)
Inventories, net	$ 652,509

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 twenty years.

Equipment and leasehold improvements consist of the following at December 31, 2004.

	2004
Machinery and equipment	$ 3,446,458
Furniture and fixtures	582,880
Leasehold improvements	130,712
Data processing equipment	398,207
Total	$ 4,558,257

Future depreciation on equipment and leasehold improvements is approximately as follows:

2005	$ 520,000
2006	496,000
2007	491,000
2008	284,000
2009	139,000
thereafter	72,085
total	2,002,085

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 fixed assets. In 2003 the Company took an impairment charge of $104,689 for clean room equipment which represented the purchase price of the equipment. Picometrix impaired the cleanroom in prior years due to the fact that the company located a third party cleanroom facility which was more economical to operate.

REVENUE RECOGNITION

Revenues from research and development cost plus 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. Estimations of costs are reviewed periodically and any anticipated losses are recognized in the period in which they first become determinable. The Company recognizes revenues upon shipment. Provision for estimated losses, if any, is made in the period in which such losses are determined.

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 $3,200 and $1,700 in 2004 and 2003, respectively. The current patents held by the Company have remaining useful lives of approximately 15 years. Future amortizations of patent expenses are as follows:

2005	$ 3,511
2006	3,511
2007	3,511
2008	3,511
2009	3,511
thereafter	22,943
TOTAL	$ 40,499

The balance of $426,643 of patents is not currently being amortized as these patents applications have not yet been granted. These costs will be amortized over the useful patent life when the patents are granted. If these patent applications are denied the Company will expense those patent application costs at that time.

SHIPPING AND HANDLING COSTS

The Company's policy is to classify shipping and handling costs as a component of Cost of Goods sold in the Statement of Operations.

ADVERTISING EXPENSE

Advertising costs are expensed as incurred. Advertising expense was approximately $ 47,000 and $ 19,000 in 2004 and 2003, respectively.

WARRANTIES

The Company typically warrants its products against defects in material and workmanship for a period of one (1) year from the date of shipment. Warranty costs are expensed in the period incurred and were not material in 2004 and 2003

PERVASIVENESS OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

NEW ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued FASB Statement No. 151, "Inventory Costs - An amendment of ARB No. 43, Chapter 4". Statement 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be expensed as incurred and not included in overhead. Further, Statement 151 requires that allocation of fixed production overheads to conversion costs should be based on normal capacity of the production facilities. The provisions in Statement 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Companies must apply the standard prospectively. The Company will adopt this standard on April 1, 2006.

In December 2004, the FASB issued FASB Statement No. 153, "Exchanges of Non-monetary Assets" which is an amendment of APB Opinion No. 29. The amendments made by the Statement are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendment eliminates the narrow exception for non-monetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of non-monetary assets that do not have "commercial substance." Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The provisions in Statement 153 are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. The Company will adopt this statement on July 1, 2005.

In December 2004 the FASB issued SFAS 123(R), "Share-Based Payment" -- Statement 123, as originally issued, is effective until the provisions of Statement 123(R) are fully adopted. This statement will provide investors and other users of financial statements with more complete and neutral financial information by requiring the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair market value of the equity or liability instruments issued. The Company will adopt this Statement in July 2005.

The FASB issued SFAS 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits -- Statement 132", as originally issued, is effective until the provisions of Statement 132(R) are fully adopted. The provisions of FAS 132 did not change. FAS 132(r) identified new disclosures that are required. All new disclosure requirements for the domestic plans of publicly traded entities are effective for years ending after December 15, 2003. Estimated future benefit payments, and all other new disclosure requirements for foreign plans and nonpublic entities are effective for years ending after June 15, 2004.

In May 2005, the Financial Accounting Standards Board (FASB) issued

Statement of Financial Accounting Standards 154 "Accounting Changes and Error Corrections"("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. The accompanying audited consolidated financial statements do not have any accounting changes or error corrections.

The Company does not believe that any of these recent accounting pronouncements will have a material impact on its financial position or results of operations.

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RESEARCH AND DEVELOPMENT EXPENSES

Expenditures for research, development and engineering of products and manufacturing processes are expensed as incurred. .

DEFERRED REVENUE

The company recorded deferred revenue in 2004 of $275,000 for prepaid extended warranty contracts for I year from one customer. The deferred warranty revenue will be recognized over the period covered by the extended warranty.

NOTES PAYABLE AND LONG-TERM DEBT

On August 28, 2002, the Company entered into a $6 million loan agreement (note payable) with Coherent, Inc. ("Coherent" and used the proceeds for the payment of certain indebtedness of the Company and for working capital purposes. Interest was paid monthly at prime minus 0.50% (5.25% and 4% at December 31, 2004 and 2003, respectively).. Coherent assigned the $6 million note payable to DP1 LLC (Assignee and the "Lender") on September 30, 2004 for $ 4 million and Picometrix entered into an amended and restated promissory note with DP1 LLC with a maturity date of March 1, 2006. Payment of either principle or interest is not required until maturity or until the closing, if sooner, of an investment by the Lender and/or its affiliate in Picometrix or a financing by a party other than the Lender and/or its affiliates. Interest accrues at 10% until April 1, 2005 and 18% from April 1, 2005 to December 1, 2005 on $ 4 million and 12% thereafter on $ 6 million. The note can be retired for $ 4 million plus accrued interest if paid off by December 1, 2005, thereafter the payoff amount is $ 6 million plus accrued thereafter. Upon the maturity of the note payable and in addition to the outstanding principal and accrued interest, the Company will pay Assignee $50,000. The note is secured by substantially all assets of the Company. The assignor has agreed to subordinate the note payable and any security interest securing repayment for any secured loan from an institutional lender, provided 100% of the proceeds of such loan are used to repay the note. On March 8, 2005, Picometrix entered into an Agreement and Plan of Merger (the "Agreement") with Advanced Photonix, Inc. and its newly formed subsidiary, Michigan Acquisition Sub, LLC ("Newco"), a Delaware limited liability company, whereby Picometrix merged with and into Newco, with Newco (renamed Picometrix LLC) being the surviving entity. Advanced Photonix, Inc. provided a loan to Picometrix for $4,228,000, which was used to prepay a $6,000,000 Note Payable, plus accrued interest at the time of the Agreement.

This resulted in a $1,950,000 gain on the note payable. Immediately following the closing of the transaction in May 2005, the API Loan was contributed to the capital of Picometrix, LLC. See subsequent events footnote.

In September of 2004 Picometrix entered into a long-term financing obligation with the Michigan Economic Development Corporation for up to $1,024,526 in unsecured financing with interest accruing monthly for the first four years and then added to the principle and amortized over the next four years at 7%.

In 2003 and 2004 Picometrix entered into long term financing arrangements with certain equipment vendors for approximately $334,000 amortized over 12 to 48 months at varying interest rates as described below.

A long term, unsecured financing arrangement with Advanced Air in an original amount of $95,000 entered into on May 1, 2003 at zero percent interest rate, with payments of $3,200 per month, a maturity of October 1, 2005 and a balance at December 31, 2004 of $31,000.

A short term, secured financing arrangement with Agilent in an original amount of $77,440 entered into in December 2004 at 8.16% interest rate, with payments of $6,742 per month, a maturity of November, 2005 and a balance at December 31, 2004 of $71,224.

A long term, unsecured financing arrangement with Angstrom in an original amount of $19,130 entered into in June, 2003 at zero percent interest rate, with payments of $638 per month, a maturity in November, 2005 and a balance at December 31, 2004 of $7,014.

A long term, unsecured financing arrangement with Bede Scientific in an original amount of $20,300 entered into on June, 2003 at 4.25% interest rate, with payments of $461 per month, a maturity of October, 2006 and a balance at December 31, 2004 of $9,732.

A long term, unsecured financing arrangement with Siemens in an original amount of $122,500 entered into in October, 2003 at zero percent interest rate, with payments of $3,403 per month, a maturity of September, 2006 and a balance at December 31, 2004 of $71,458.

Long-term financing obligations at December 31, 2004 consist of the following:

Note payable - DP1 LLC, see above	$ 6,000,000
Note payable - MEDC	750,000
Obligations under capital leases (see note below)	103,908
Bede	9,733
Siemens Building	71,458

Agilent	71,224

Advanced Air	31,000
ANGSTROM	7,014
Total	7,051,351
Less: current portion	(146,861)
LONG-TERM FINANCING LESS CURRENT PORTION	6,904,490

Future payments on long-term financing obligations through 2009 are approximately as follows:

2005	$ 146,861
2006	6,154,490
2007	0
2008	52,000
2009	219,000
thereafter	479,000
Total	7,051,351

CAPITALIZED LEASES

The Company has two (2) capitalized lease obligations which provide for monthly payments of $5,284 with capitalized imputed interest rates of 8.7% each with a weighted average imputed interest rate of 8.7% at December 31, 2004. The leases mature at the end of 2006.. Future payments on the lease obligations are approximately as follows:

2005	$ 63,400
2006	51,000
Total minimum lease payments	$ 114,400
Interest	(10,492)
Present value of net minimum lease payments	$ 103,908

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CAPITALIZATION

The Company's Certificate of Incorporation provides for two classes of common stock, a Class A, non-voting, no par stock for future issuance to employees, directors and consultants of the company (none issued or outstanding at December 31, 2004), for which 2,520,000 shares are authorized for issuance and reserved under the 2000 stock option plan and a Class B voting, no par common stock for which 15,480,000 shares are authorized and issued.

INCOME TAXES

Deferred taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2004 and 2003 are as follows:

	2004	2003
Deferred tax assets:		
Net operating loss carry forwards	$ 480,551	$ 20,066
Asset impairment	470,731	470,731
Research and development tax credit	187,358	187,358
Inventory	81,942	61,874
Accruals & Other	25,972	22,072
AMT credits	5,889	-
Total deferred tax assets	1,252,443	1,462,101
Deferred tax liabilities:		
Depreciation	(145,873)	(133,456)
Tax accounting method change	(67,870)	(101,805)
Total deferred tax liabilities	(213,743)	(235,261)
Net deferred tax asset	1,030,700	1,226,840
Less valuation allowance	(688,721)	-
Net deferred tax asset	$ 349,979	$ 1,226,840

Realization of future tax benefits related to deferred tax assets is dependent on many factors, including the Company's ability to generate sufficient taxable income and the change in control provisions of Internal Revenue Code section 382.. Management has considered these factors in reaching its conclusion to provide a valuation allowance for financial reporting purposes.

At December 31, 2004 and 2003, the Company has net operating loss carry forwards of approximately $1,413,000 and $2,117,000, respectively that begin to expire in 2022.

The Company has $187,000 of R&D tax credit carry forwards available at December 31, 2004 and 2003.

RETIREMENT PLAN

The Company maintains a 401(k) Plan which is qualified under the Internal Revenue Code. The plan permits eligible employees to make voluntary contributions up to the IRS allowable limit. The Company has the option to make a discretionary contribution of a percentage of the employee's compensation limited to the amount deductible for federal tax purposes. The Company contributions and administrative costs recognized as expense were approximately $55,000 and $1,000 in 2004 and 2003, respectively.

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COMMITMENTS

The Company leases a building and office equipment under various operating leases. The building lease expires in 2011, and the Company has an option to extend for two additional five year periods with annual base rent increase of 80% of the increase in the CPI index. In accordance with the lease agreement, the Company is required to have a letter of credit (LOC) of $275,000 throughout the lease term. At December 31, 2004, future minimum annual rental commitments under non-cancelable operating leases are approximately as follows:

2005	$ 704,300
2006	704,300
2007	704,300
2008	704,300
2009	704,300
2010	704,300
2011	352,100
Total	$ 4,577,900

Rent expense was approximately $704,000 and $704,000 for the years ended December 31, 2004 and 2003, respectively.

In connection with the issuance of the LOC, the issuing bank has required that the Company provide applicable funds to cover amounts drawn under the LOC. The funds are invested in bank certificates of deposit. These funds are shown as restricted cash on the balance sheet.

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.

STOCK OPTIONS

During 2000, the Company adopted the 2000 Stock Option Plan, under which stock options may be granted to employees, directors and consultants of the Company. The Plan is administered by the Board of Directors (BOD), and the Company's shareholders have authorized the BOD to reserve 2,520,000 shares of Class A, non-voting, no par stock for future issuance under the Plan. The options are not transferable and are subject to various restrictions outlined in the Plan.

The Company accounts for employee stock options in accordance with Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. Accordingly, no compensation expense has been recognized in the financial statements for employee stock options. Statement of Financial Accounting Standards (SFAS) No. 123 encourages companies to adopt a fair value method of accounting for stock compensation plans. Companies that do not adopt a fair value method are required to make pro-forma disclosures of net income and earnings per share, if material, as if they had adopted the fair value accounting method. The fair value of options granted has been estimated at the date of the grant using the minimum value method. No compensation cost has been recognized as all options were granted at the fair market value 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:

	2004	2003
Net income (loss), as reported	$ 888,170	$ (2,083,222)
Net incomes (loss), Pro forma	871,377	(2,106,252)

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to

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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 2004 and 2003, respectively: risk-free interest rates of, 3%, 3.07% expected volatility of .73, and .8 and expected lives of 10 years in all periods. No dividends were assumed in the calculations.

Options vest over 3 to 5 years and are subject to forfeiture. Stock option transactions for fiscal years 2003 and 2004 are summarized as follows:

	Shares (000)	Weighted Average Exercise Price
Outstanding, December 31, 2002	1,508	$ 0.36
Granted	362	$ 0.03
Exercised	0	0
Canceled/Expired	(472)	$ 0.33
Outstanding, December 31, 2003	1,398	$ 0.28
Exercisable, December 31, 2003	826	$ .32
Outstanding, December 31, 2003	1,398	$ 0.28
Granted	0	0
Exercised	0	0
Canceled/Expired	(160)	$ 0.05
Outstanding, December 31, 2004	1,238	$ .31
Exercisable, December 31, 2004	991	$ .33

Information regarding stock options outstanding as of December 31, 2004 is as follows:

Price Range	Options Outstanding (in 000s) Shares	Weighted Average Exercise Price	Weighted Average Remaining Life
$0.03 - $.23	788	$ 0.18	6.3
$0.40 - $1.25	450	$ 0.55	7.0

Price Range Shares	Options Outstanding (in 000s) Shares	Weighted Average Exercise Price	Weighted Average Remaining Life
$0.03 - $.23	1,212	$ 0.21	5.7
$0.40 - $1.25	467	$ 0.57	6.9

All outstanding stock options of Picometrix representing 1,238,000 of Class A non-voting common stock if exercised were repurchased in April 2005 for a cash consideration $ 509,545 at an average price $.41 per share.

SUBSEQUENT EVENTS (UNAUDITED)

On March 8, 2005, Picometrix entered into an Agreement and Plan of Merger (the "Agreement") with Advanced Photonix, Inc. and its newly formed subsidiary, Michigan Acquisition Sub, LLC ("Newco"), a

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Delaware limited liability company, whereby Picometrix merged with and into Newco, with Newco (renamed Picometrix LLC) being the surviving entity. Advanced Photonix, Inc. provided a loan to Picometrix for $4,228,000, which was used to prepay a $6,000,000 Note Payable, plus accrued interest at the time of the Agreement. This resulted in a $1,950,000 gain on the note payable. The merger transaction was completed in May 2005. The merger consideration paid to the stockholders of Picometrix at the closing of the transaction consisted of $3,500,000 in cash, four-year API promissory notes in the aggregate principal amount of $2,900,500 (the "API Notes") and 2,575,000 shares of API Class A Common Stock.

The API notes are payable in four annual installments of $500,000, $550,000, $900,000 and $950,500 respectively. The API Notes bear an interest rate of prime plus 1.0% and are secured by all of the intellectual property of Picometrix. API has the option of prepaying the API Notes without penalty. API engaged a third party valuation firm to perform a valuation of tangible and intangible assets. This valuation was then used to allocate the merger consideration (including all cash, the API LOAN TO Picometrix, the API Notes and the API Class A Common Stock) to Picometrix LLC tangible and intangible assets. The excess of the assets over liabilities represented the capitalization of Picometrix LLC. Immediately following the effective time of the transaction, the API Loan was contributed to the capital of Picometrix, LLC.

UNAUDITED INTERIM FINANCIAL STATEMENTS
PICOTRONIX, INC.
BALANCE SHEETS
UNAUDITED

	UNAUDITE MARCH 31,
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,498,
Accounts receivable	988,
Inventories	723,
Prepaid expenses and other current assets	122,
Total current assets	3,332,
Property and equipment:	
Leasehold improvements	130,
Machinery and equipment	3,849,
Furniture and fixtures	582,
	4,563,
Accumulated depreciation	(2,690,
	1,872,
Other assets:	
Deposits and other assets	94,
Patents, net	467,
Total assets	$ 5,766,
LIABILITIES AND SHAREHOLDERS' DEFICIENCY	
Current liabilities	
Accounts payable:	
Trade	227,
Income taxes payable	16,
Accrued liabilities:	
Compensation and related withholdings	303,
Interest Accrual	
Consulting	
Other	172,
Current portion of long-term debt	4,349,
Total liabilities	5,069,
Long-term debt, less current portion	1,153,
Total liabilities	6,223,

Shareholders' deficit:	
Class B common stock, voting, no par value; 15,480,000 shares authorized, 15,480,000 issued and outstanding (13,536,000 issued and outstanding in 2002)	22,
Accumulated deficit	(479,
Total shareholders' deficit	(456,
Total liabilities and shareholders' deficit	$ 5,766,

See accompanying notes

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PICOTRONIX, INC.
STATEMENTS OF CASH FLOWS

	UNAUDITED 3 MONTHS ENDED MARCH 31, 2005
OPERATING ACTIVITIES	
Net income	$ 1,385,083
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	134,034
Deferred income tax benefit	349,979
Changes in operating assets and liabilities:	
Income taxes	10,836
Prepaid expenses	63,703
Accounts payable, accrued expenses, and other	(88,934)
Inventories	(70,724)
Accounts receivable	257,289
Net cash used in operating activities	2,041,266
INVESTING ACTIVITIES	
Purchases of property and equipment	(4,748)
Decrease in restricted investments	-
Net cash used in operating activities	(4,748)
FINANCING ACTIVITIES	
Payments on capital lease obligation	(15,852)
Net borrowings from vendors	(1,807,527)
Net cash (used in) provided by financing activities	(1,823,379)
Net increase in cash	213,139
Cash at beginning of year	1,284,938
Cash at end of year	$ 1,498,077

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash refunded for income taxes	-
Cash paid for interest	$ 178,099

SUPPLEMENTAL DISCLOSURE OF NON CASH OPERATING, INVESTING AND FINANCING ACTIVITIES

PICOMETRIX, INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	UNAUDITED 3 MONTHS ENDED MARCH 31, 2005
Net sales	$ 1,464,398
Cost of products sold	338,179
Gross profit	1,126,219
Selling, general and administrative expenses	530,288
Research and development expenses	708,070
	1,238,358
Income (loss) from operations	(112,139)
Other income (expense):	
Interest expense	(85,963)
Forgiveness of debt	1,950,000
Income (loss) before income taxes	1,751,898
Federal income taxes (benefit):	
Total provision (benefit) for income taxes	366,815
Net income (loss)	1,385,083
(Accumulated deficit) retained earnings at beginning of year	(1,864,391)
Accumulated deficit at end of year	$ (479,308)

SUMMARY COMBINED COMPANY UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Effective May 2, 2005, Advanced Photonix, Inc ("API") completed its acquisition of Picotronix, Inc, through the merger of Picotronix, Inc. (doing business as and referred to herein as "Picometrix"), into Picometrix LLC, a wholly-owned subsidiary of API. Pursuant to the merger between Picometrix and API, API paid approximately $16 million in the form of $3.5 million in cash, four-year API promissory notes in the aggregate principal amount of approximately $2.9 million (the "API Notes") and $5.4 million in API Class A Common Stock (2,575,000 shares valued at $2.11) and provided a loan in the amount of approximately $4.2 million to Picometrix (the "API Loan"), the proceeds of which were used to prepay existing long-term indebtedness of Picometrix to a third party. Immediately following the effective time of the transaction, the API Loan was contributed to the capital of Picometrix, LLC.

The combined company unaudited pro forma consolidated statements of operations give effect to the purchase of Picometrix as if the transaction had occurred on March 28, 2004. The combined company unaudited pro forma condensed consolidated statements of operations do not purport to represent what the results of operations actually would have been if the purchase had occurred as of such date, or what such results will be for any future periods.

The combined company unaudited pro forma consolidated statements of operations are derived from the historical financial statements of API and Picometrix and the assumptions and adjustments described in the accompanying notes. The pro forma adjustments are based on preliminary estimates and assumptions that API and Picometrix believe are reasonable under the circumstances. The combined company unaudited pro forma financial information should be read in conjunction with the historical financial statements and the accompanying notes thereto of API and Picometrix. The combined company unaudited pro forma consolidated statements of operations do not reflect any cost savings or other economic efficiencies which will result from the purchase.

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ADVANCED PHOTONIX, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 27, 2005

	3/27/2005 API	3/31/2005 PICOMETRIX	ADJU
CURRENT ASSETS			
Cash and cash equivalents	$ 1,503,000	$ 1,222,303	$ (4,
			2,
			1,
Restricted cash	1,254,000		(1,
Repurchase of Class A Stock Options			(
TOTAL CASH AND CASH EQUIVALENTS	2,757,000	1,222,303	(2,
Accounts receivable, net	2,610,000	988,506	
Note receivable from Picometrix, Inc.	4,228,000		(4,
Inventory	3,644,000	723,233	
Deferred tax asset, current portion	644,000		
Prepaid expenses and other current assets	563,000	122,204	
TOTAL CURRENT ASSETS	14,446,000	3,056,246	(6,
Fixed assets, net of depreciation	1,399,000	1,872,799	
OTHER ASSETS			

Deferred tax assets, net	4,105,000		
Goodwill, net	2,421,000		
Intangible assets	494,000	467,142	12,
Prepaid capital finance expenses, net	315,000		
Security deposits and other assets	175,000	370,226	
TOTAL OTHER ASSETS	7,510,000	837,368	12,
TOTAL ASSETS	$ 23,355,000	$ 5,766,413	$ 6,
CURRENT LIABILITIES			
Accounts payable and accrued expenses	$ 2,185,000	$ 703,584	
Income taxes payable		$ 16,725	
Deferred revenue			
Current portion of long-term debt	1,000,000	4,349,681	(5,
TOTAL CURRENT LIABILITIES	3,185,000	5,069,990	(5,
LONG-TERM LIABILITIES			
Long-term debt	4,859,000	1,153,291	
			2,
			1,
Capital lease payable	2,000		
TOTAL LONG-TERM LIABILITIES	4,861,000	1,153,291	4,
COMMITMENTS AND CONTINGENCIES			
Class A redeemable convertible preferred stock	32,000	-	
TOTAL COMMITMENTS AND CONTINGENCIES	32,000	-	
TOTAL LIABILITIES	$ 8,078,000	$ 6,223,281	$ (
SHAREHOLDERS' EQUITY			
Common stock	13,000	22,440	
Additional paid-in capital	27,995,000		5,
Accumulated deficit	(12,731,000)	(479,308)	
Option Repurchase			
TOTAL SHAREHOLDERS' EQUITY	15,277,000	(456,868)	6,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 23,355,000	$ 5,766,413	$ 5,

SEE NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

NOTES:

1 Eliminates the items on Picometrix historical financial statements.

2 Reflects preliminary allocation of purchase price to tangible and intangible assets.

3 Represents the cash portion of the purchase price.

4 Reflects the impact of issuance of $2,900,500 aggregate principal amount of promissory notes issued to finance the acquisition of Picometrix, (the "API notes"), payable to the Picometrix stockholders.

5 Reflects API stock issued as part of the purchase price.

6 Reflects incurrence of a term loan by API for $2,700,000 to finance purchase of Picometrix.

7 Reflects loan from API to Picometrix that was forgiven as part of the agreement and plan of merger and current portion of SBBT loan.

8 Reclassification of restricted cash on API balance sheet.

9 Repurchase of Class A common Stock Options.

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ADVANCED PHOTONIX, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 27, 2005

	API HISTORICAL	PICOMETRIX HISTORICAL	ADJUSTMENT
REVENUES			
Revenues	$14,803,000	$7,473,404	$
COST OF SALES	10,071,000	2,311,104	62,61
GROSS PROFIT (LOSS)	4,732,000	5,162,300	(62,61
OPERATING EXPENSES			
Research and development expense	146,000	2,574,997	399,37
Selling, General and administrative expense	3,920,000	1,703,389	47,55
Depreciation			119,03
Amortization	-	-	1,186,01
TOTAL OPERATING EXPENSES	4,066,000	4,278,386	1,751,97
INCOME (LOSS) FROM OPERATIONS	666,000	883,914	(1,814,59
OTHER (INCOME) EXPENSE			
Interest income	(43,000)	(6,990)	
Interest expense	154,000	304,784	167,75
			(392,77
			62,04
Other, net	35,000	42,040	(1,950,00
TOTAL OTHER (INCOME) EXPENSE	146,000	339,834	(2,112,97
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	520,000	544,080	298,37
PROVISION FOR INCOME TAXES			
Provision for income taxes - current	18,000	5,889	
Provision for income taxes - deferred	(4,752,000)	(349,979)	
TOTAL PROVISION FOR INCOME TAXES	(4,734,000)	(344,090)	
NET INCOME (LOSS)	$ 5,254,000	$ 888,170	$ 298,37

1 Reflects the projected impact of depreciation on writeup of assets.

2 Reflects the projected impact of amortization of acquired intangible assets of $3,588,616 over 15 years useful life and $9,467,764 over 10 years useful life.

3 Reflects the impact of interest expense from $2,900,500 aggregate principal amount of the API notes. The interest rate used was the average prime rate plus 1% per quarter (4/1/04 - 3/27/05) multiplied by the number of days in each quarter.

4 Reflects the reversal of Interest paid to Coherent and DPC1 with respect to the repayment of the loan.

5 Reflects the impact of interest expense from $2,700,000 aggregate principal amount of the API notes. The interest rate used was the average prime rate plus 1% per quarter (4/1/04 - 9/30/04) multiplied by 5 the number of days in each quarter.

6 No income tax benefit is assumed due to uncertainties surrounding the ultimate realizability of net operating losses.

7 Reflects gain on forgiveness of debt on DPC1.

8 Repurchase of class A stock options.

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/ Richard Kurtz

Richard Kurtz, Chief Executive Officer

Dated: July 18, 2005