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ADVANCED PHOTONIX INC
Form 8-K
September 05, 2002

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

CURRENT REPORT

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

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

Advanced Photonix, Inc.

(Exact Name of Registrant as specified in its Charter)

Delaware	1-11056	33-0325836
-----	-----	-----
(State or other jurisdiction 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

Item 2. Acquisition or Disposition of Assets.

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

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

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

Item 7. Financial Statements and Exhibits

(a) Financial Statements

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

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

(b) Pro Forma Information

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

(c) Exhibits

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

[Item 7. (a) (i)]

INDEPENDENT AUDITORS' REPORT

Members
Silicon Sensors, LLC
Dodgeville, Wisconsin

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

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

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

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

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

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

SILICON SENSORS, LLC

BALANCE SHEETS September 30, 2001 and 2000

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

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

See accompanying notes to financial statements.

SILICON SENSORS, LLC

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

	2001	2000
NET SALES	\$ 4,377,348	\$ 3,377,348
COST OF GOODS SOLD	3,023,849	2,823,849
Gross Profit	1,353,499	553,499
OPERATING EXPENSES		
Selling	321,845	242,971
Engineering	242,971	462,302
Administrative	462,302	1,027,118
Total Operating Expenses	1,027,118	1,732,391
Income from Operations	326,381	171,108
OTHER INCOME (EXPENSE)		
Interest expense	(90,146)	5,521
Other income	5,521	-

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

SILICON SENSORS, LLC

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

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

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

NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 554,029

	=====
See accompanying notes to financial statements.	

SILICON SENSORS, LLC

NOTES TO FINANCIAL STATEMENTS
September 30, 2001 and 2000

NOTE 1 - ORGANIZATION AND BUSINESS

Nature of Operations

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventories

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

Equipment and Furnishings

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

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as incurred. Estimated useful lives are as follows:

	Years

Machinery and equipment	2 -10
Office furnishings	3 - 7

Other Assets, Net

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

Income Taxes

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

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

Estimates

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

Reclassification

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

NOTE 3 - INVENTORIES

Inventories consist of the following at September 30:

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

NOTE 4 - DEBT AND LONG-TERM LIABILITIES

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

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

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

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

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

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

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

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

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

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

2002	\$ 387,971
2003	276,124
2004	414,230
2005	11,481
2006	9,851

Total	\$1,099,657

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NOTE 5 - MEMBERS' EQUITY

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

NOTE 6 - PROFIT SHARING PLAN

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

NOTE 7 - COMMITMENTS

Operating Leases

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

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

2002	\$ 66,600
2003	39,200

Total	\$105,800

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

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

NOTE 8 - RELATED PARTY TRANSACTIONS

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

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

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NOTE 9 - OTHER MATTERS

Major Customers

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

Major Vendors

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

NOTE 10 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

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

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE

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

[Item 7.(a)(ii)]

SILICON SENSORS LLC Balance Sheet (UNAUDITED)

	At July 31st	
	2002	2001
ASSETS		

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

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Office Furnishings	222,276	208,083
	-----	-----
	1,472,465	1,326,299
Less Accumulated Depreciation	(948,360)	(758,747)
	-----	-----
Net Equipment & Furnishings	524,105	567,552
OTHER ASSETS	6,000	24,335
	-----	-----
TOTAL ASSETS	\$ 1,380,621	\$ 1,869,906
	=====	=====
LIABILITIES AND EQUITY		

CURRENT LIABILITIES		
Accounts Payable	\$ 127,921	\$ 169,077
Accrued Expenses	136,354	115,431
Current Maturities on Debt	49,713	137,500
	-----	-----
TOTAL CURRENT LIABILITIES	313,988	422,008
LONG TERM LIABILITIES	853,482	796,580
	-----	-----
Total Liabilities	1,167,470	1,218,588
MEMBERS' EQUITY	213,151	651,318
	-----	-----
TOTAL LIABILITIES & EQUITY	\$ 1,380,621	\$ 1,869,906
	=====	=====

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

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

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SILICON SENSORS LLC
 Statements of Cash Flows
 (UNAUDITED)

For the Ten Months Ended July 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from Customers	\$ 2,619,030
Cash paid to suppliers and employees	(2,429,949)
Interest paid	(62,346)
Income taxes received (paid)	33,847

Net Cash Flows From Operating Activities	160,582

CASH FLOWS FROM INVESTING ACTIVITIES	
Capital Expenditures	(35,106)
Proceeds from Sale of Fixed Asset	200

Net Cash Flows From Investing Activities	(34,906)

CASH FLOWS FROM FINANCING ACTIVITIES	
Net change in revolving credit facility	125,000
Payments on long-term debt	(321,462)
Proceeds from long-term debt	-
Members' Equity	125,000
Members' Distributions	(109,886)

Net Cash Flows From Financing Activities	(181,348)

Net Change in Cash and Cash Equivalents	(55,672)
CASH AND CASH EQUIVALENTS - Beginning of Year	62,715

CASH AND CASH EQUIVALENTS - End of Year	\$ 7,043
	=====
RECONCILIATION OF NET INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	\$ (416,836)
Adjustments to reconcile net income to net cash flows from operating activities	
Noncash items included in income	
Depreciation	162,847
Nonoperational items included in income	
Loss (gain) on asset disposal	2,247
Changes in noncash components of working capital	
Accounts receivable	136,124
Other receivables	10,469
Inventories	275,395
Other current assets	26,392
Accounts payable and other current liabilities	(36,056)

NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 160,582
	=====

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADVANCED PHOTONIX, INC.

By: /s/ Brock Koren

Brock Koren, President and Chief
Executive Officer

Dated: September 3, 2002