ADVANCED PHOTONIX INC
Form 10-K/A
November 14, 2006

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K/A

(Mark One)

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

For the fiscal year ended March 31, 2006

OR

o **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. ®

(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.)

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

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. ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No þ

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

Total revenues for registrant s fiscal year ended March 31, 2006 were $ 23,585,000.

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price as reported by the NASDAQ National Market of the registrant s Common Stock on September 25, 2005, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $44.8 million. Shares of voting stock held by each officer and director and by each person who owns 5% or more of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of June 23, 2006 there were 18,942,315 shares of Class A Common Stock and 31,691 shares of Class B Common Stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the Annual Meeting for 2006 are incorporated by reference in Part III.

EXPLANATORY NOTE

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

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

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

The Company recorded non-cash interest expense in the amount of $1,978,000 during fiscal year 2006 as compared to $176,000 recorded in fiscal year 2005.

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

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

Consolidated Statement of Operations	**As Reported**	**Restated**
Interest expense, warrant fair value		(1,978,000)
Interest expense related to convertible debt	(389,000)	(208,000)
Income (loss) before provisions for income taxes	(3,437,000)	(5,234,000)
Net Income (Loss)	(3,465,000)	(5,262,000)
Basic earnings (loss) per share	$ (0.20)	$ (0.30)
Diluted earnings (loss) per share	$ (0.20)	$ (0.30)

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The changes to the Balance Sheet and Statement of Operations as of and for the year ended March 27, 2005 are as follows:

Balance Sheet	**As Reported**	**Restated**
Long-term debt, less current portion	4,861,000	3,834,000
Total liabilities	8,046,000	7,019,000
Additional paid-in capital	27,995,000	29,198,000
Accumulated deficit	(12,731,000)	(12,907,000)
Total shareholders equity	15,277,000	16,304,000

Consolidated Statement of Operations	**As Reported**	**Restated**
Interest expense, warrant fair value		(176,000)
Income (loss) before provisions for income taxes	520,000	344,000
Net Income (Loss)	5,254,000	5,078,000
Basic earnings (loss) per share	$ 0.39	$ 0.38
Diluted earnings (loss) per share	$ 0.34	$ 0.33

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PART I

Item 1. Business

General

Advanced Photonix, Inc. ® (the Company , we or API), was incorporated under the laws of the State of Delaware in June 1988. The Company is engaged in the development and manufacture of optoelectronic devices and value-added sub-systems and systems. The Company serves a variety of global Original Equipment Manufacturers (OEMs), in a variety of industries. The Company supports the customer from the initial concept and design phase of the product, through testing to full-scale production. The Company has three manufacturing facilities; located in Camarillo, CA, Dodgeville, WI and Ann Arbor, MI.

In May 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. Pursuant to the merger between Picometrix and API, API paid consideration of approximately $17 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), $5.4 million in API Class A Common Stock (2,575,000 shares valued at $2.11 per share), a loan in the amount of approximately $4.2 million to Picometrix (the API Loan) was forgiven, the proceeds of which were used to prepay existing long-term indebtedness of Picometrix to a third party, and broker fees and other transaction costs directly related to the acquisition of approximately $900,000. The API Notes are payable in four annual installments with the first being a payment in the aggregate of $500,000, the second being a payment in the aggregate of $550,000, the third being a payment in the aggregate of $900,000 and the fourth being a payment in the aggregate of $950,500. 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. Immediately following the effective time of the transaction, the API Loan was contributed to the capital of Picometrix, LLC. In connection with the transaction, the Company recorded approximately $15 million in intangible assets (including customer list, non-compete agreement, trademarks, R & D contracts, and technology/patents) and will amortize these finite life intangible assets over their various estimated useful lives up to 15 years.

Products & Technologies

Our Business

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

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We support the customer from the initial concept and design of the semiconductor, hybridization of support electronics, packaging and signal conditioning or processing from prototype through full-scale production and validation testing. The target markets served by us are Military/Aerospace, Homeland Security, Medical, Telecom, and Industrial Sensing/NDT.

Technology & Manufacturing Capabilities

Our basic technologies and manufacturing capabilities include the following:

- Optoelectronic semiconductor design and micro fabrication of Silicon (Si) and III-V compound semiconductor devices including photodetectors and terahertz transmitters/receiver antenna,
- MBE growth of high-speed III-V compound semiconductor material including GaAs, InAlAs and InP,
- Opto-electronic hybrid packaging of semiconductor devices combining opto-electronic devices with high-speed electronics and fiber optics,
- Vapor deposition and/or ion implantation for Silicon based PIN & APD photo-detectors,
- Terahertz (THz) systems, subsystems, transmitters and receivers
- Femtosecond laser pulse control and system integration

Core Products

The core product technologies used in the majority of our products are opto-electronic semiconductor devices, including photodiodes and antennae made of silicon (Si) or III-V compound semiconductor material. Photodiodes and antennae sense light of varying wavelengths and intensity and convert that light and/or THz wave into electrical signals. We manufacture photodiodes of varying complexity, from basic positive-intrinsic-negative (PIN) photodiode to the more sophisticated avalanche photodiode (APD) and antennae that transmit and receive THz signals (Transceiver). The APD is a specialized 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 state-of-the-art clean rooms. Our products include the following:

- High Speed Optical Receivers (10Gb/s & 40Gb/s) which are packaged InP, InAlAs, or GaAs PIN and/or APD photodiodes with amplifiers
- Packaged PIN and APD photodiodes in Silicon (Si) and III-V materials (InP, InAlAs, GaAs)
- Packaged Si APD components, with and without thermo-electric coolers
- Packaged Si Large Area Avalanche Photodiode (LAAPD) components
- Packaged Si photodiodes with patented FILTRODE® technology integrating optical filters directly on photodiode chips
- Terahertz Systems & subsystems utilizing III-V materials for THz transmitters &/or receivers

Terahertz Technology

The newest technology the Company is pursuing is Terahertz (THz) or the Company s T-Ray technology. Terahertz is a region of the electromagnetic (EM) Spectrum that is just beginning to be explored. THz lies between microwave and infrared waves on the EM spectrum. While microwaves and infrared waves have been explored and commercialized for decades, THz waves are in the early stages of being explored and commercialized due to the fact that they have historically been very difficult to generate and detect. Recent advances in femtosecond lasers and ultrafast semiconductor and electro-optic devices combined with fiber-optic packaging technologies have enabled the development of practical T-Ray instrumentation and as a result application/market development of THz technology has recently accelerated. THz can be used to look

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through and beneath materials with high 2-dimensional (2-D) and 3-D spatial resolution roughly equivalent to the resolution of the human eye or better. It can also uniquely identify the chemical composition of many hidden or subsurface objects and has been determined to have non-ionizing radiation, which is not harmful to humans at the power levels commonly used today. THz imaging and spectroscopy market applications include industrial quality control through non-destructive testing (including aerospace and pharmaceutical markets); homeland security and defense screening of people, packages and bags for weapons and weapons of mass destruction; medical imaging and other scientific applications.

We have had significant Terahertz technology and product development since 1997, resulting in over 20 patents or patents pending to date. In 2001, we sold the first commercial Terahertz product, the T-Ray 2000 as a laboratory bench top instrument for application development with spectroscopy and imaging capabilities targeted at the research and development and off-line diagnostic markets. In 2004, we sold the first T-Ray Manufacturing Inspection System (QA1000) for on-line, real-time inspection to NASA for the space shuttle fuel tank inspection in the Return to Flight Program.

Markets

Our products serve customers in a variety of global markets, typically North America, Asia, Europe and Australia. The target markets and applications served by us are as follows:

- Military:
  - Space
  - Defense
- Industrial/Non-Destructive Testing:
  - Manufacturing
  - Instrumentation
  - Display
- Medical:
  - Diagnostic & Monitoring
  - Ophthalmic Equipment
  - Medical Imaging
- Telecommunications:
  - Telecom Equipment
  - Test and Measurement
  - Wireless Communications Equipment
- Homeland Security:
  - Baggage/Cargo Scanning
  - Passenger Screening

Recent Developments

Advanced Photonix, Inc. has begun consolidating semiconductor fabrication into its Ann Arbor, Michigan facility. Advanced Photonix, Inc. has budgeted $2.2 million for operating and capital expenses for this consolidation. As part of the consolidation API has moved corporate headquarters from Camarillo, California to Ann Arbor, MI. The Michigan Economic Development Corporation (MEDC) approved a state Single

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Business Tax credit valued at more than $1.1 million over 10 years to win the Company s business. The city of Ann Arbor also approved a personal property tax abatement valued at approximately $103,000 over five years to support the project.

On June 2, 2006 the Company announced the resignation of Paul Ludwig as a member of the Board of Directors and President of Advanced Photonix, Inc. Richard Kurtz CEO and Chairman of the Board assumed the responsibility of President.

Raw Materials

The principal raw materials used by the Company in the manufacture of its semiconductor components and sensor assemblies are silicon and III-V material (InP, GaAs) wafers, chemicals, gases and metals used in processing wafers, gold wire, solders, 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, III-V wafers (InP, GaAs), certain metal packages 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.

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 2006, 2005, and 2004, research and development expenses amounted to $3,019,000, $146,000, and $280,000 respectively. The increase in R&D costs is primarily the result of the Picometrix acquisition and other new non-Picometrix product R&D initiatives. The Company expects that an increase in research and development funding will be required for new projects/products as well as the continuing development of new derivatives of the Company s current product line The Company has in the past, and will continue to pursue customer funded, as well as internally funded, research and development projects when they are in support of the Company s development objectives.

As we begin the new fiscal year, the following research and development projects are currently underway:

- The next generation photodiodes and high-speed optical receivers for both the 10G and 40G telecommunications market

- Terahertz development of the next generation system for homeland security/military, aerospace and pharmaceutical industrial QC markets.

- Si APD performance enhancements designed specifically for certain military and medical imaging applications

- Si PIN photodiodes developments to meet unique customer requirements, such as higher speeds, lower electrical noise, and unique multi-element geometries.

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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.

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. When customers cancel an order, they are 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.

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, including Europe, the Middle East and Pacific Rim, are conducted direct and through foreign distributors. The Company s products are primarily sold as components or assemblies to original equipment manufacturers (OEM s). The Company markets its products and capabilities through industry specific channels, including the Internet, industry trade shows, and in print through trade journals.

Competition

The Company competes with a range of companies for the custom optoelectronic products, high-speed optical receiver products and terahertz systems and instrumentation products in its target markets. The Company believes that its principal competitors for sales of custom optoelectronic products are small to medium size companies. In the high-speed optical receiver market the Company believes that it competitors are medium to large size companies with or without internally supplied components. Because the THz product offering includes developing technology and markets, the Company believes the competition is mainly from research and development centers in business, governmental/university settings and from small companies.

Because the Company specializes in devices requiring a high degree of engineering expertise to meet the requirements of specific applications, it generally does not compete with standard products manufacturing companies to any significant degree with other large United States, European or Pacific Rim manufacturers of standard off the shelf optoelectronic components or silicon photodetectors

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Proprietary Technology

The Company utilizes proprietary design rules and processing steps in the development and fabrication of its PIN and APD photodiodes, THz transmitters and receivers, fiber-coupled THz subsystems/systems, and THz applications. The Company has a significant number of patents pending and owns the following patents:

Patent #	Title	Issue Date
142,195	HIGHLY-DOPED P-TYPE CONTACT FOR HIGH-SPEED, FRONT-SIDE ILLUMINATED PHOTODIODE	Apr-05
765,715	HIGHLY-DOPED P-TYPE CONTACT FOR HIGH-SPEED, FRONT-SIDE ILLUMINATED PHOTODIODE	Jan-04
2,345,153	HIGHLY-DOPED P-TYPE CONTACT FOR HIGH-SPEED, FRONT-SIDE ILLUMINATED PHOTODIODE	Mar-04
4,717,946	THIN LINE JUNCTION PHOTODIODE	Jan 1988 (by predecessor co.)
4,782,382	HIGH QUANTUM EFFICIENCY PHOTODIODE DEVICES	Nov 1988 (by predecessor co.)
5,021,854	SILICON AVALANCHE PHOTODIODE ARRAY	Jun-91
5,057,892	LIGHT RESPONSIVE AVALANCHE DIODE	Oct-91
5,146,296	DEVICES FOR DETECTING AND/OR IMAGING SINGLE PHOTOELECTRON	Sep-92
5,311,044	AVALANCHE PHOTOMULTIPLIER TUBE	May-94
5,477,075	SOLID STATE PHOTODETECTOR WITH LIGHT RESPONSIVE REAR FACE	Dec-95
5,757,057	LARGE AREA AVALANCHE ARRAY	May-98
5,801,430	SOLID STATE PHOTODETECTOR WITH LIGHT RESPONSIVE REAR FACE	Sep-98
6,005,276	SOLID STATE PHOTODETECTOR WITH LIGHT RESPONSIVE REAR FACE	Dec-99
6,111,299	ACTIVE LARGE AREA AVLANCHE PHOTODIODE ARRAY	Aug-00
6,262,465	HIGHLY-DOPED P-TYPE CONTACT FOR HIGH-SPEED, FRONT-SIDE ILLUMINATED PHOTODIODE	Jul-01
6,320,191	A DISPERSIVE PRECOMPENSATOR FOR USE IN AN ELECTROMAGNETIC RADIATION GENERATION AND DETECTION SYSTEM	Nov-01
6,816,647	COMPACT FIBER PIGTAILED TERAHERTZ IMAGING SYSTEM	Nov-04
6,849,852	SYSTEM AND METHOD FOR MONITORING CHANGES IN STATE OF MATTER WITH TERAHERTZ RADIATION	Feb-05

6,936,821	AMPLIFIED PHOTOCONDUCTIVE GATE	Aug-05

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.

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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 26, 2006 the Company had 152 employees, comprised of 145 full time employees (including 3 officers) and 7 part time employees. Included are 26 engineering and development personnel, 12 sales and marketing personnel, 95 operations personnel, and 19 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. None of our employees are covered by a collective bargaining agreement. We believe our relations with our employees are good.

Item 1a Risk Factors

Investing in our Class A common stock involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our Class A common stock. Our business, prospects, financial condition and results of operations could be adversely affected due to any of the following risks. In that case, the value of our Class A common stock could decline, and you could lose all or part of your investment.

Risks Relating to Our Business

We are dependent upon several suppliers for a significant portion of raw materials used in the manufacturing of our products.

The principal raw materials we use in the manufacture of our semiconductor components and sensor assemblies are silicon and III-IV 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. Any significant interruption in the supply of these raw materials could have a material adverse effect on us.

Customer acceptance of our products is dependent on our ability to meet changing requirements.

Customer acceptance of our products is significantly dependent on our ability to offer products that meet the changing requirements of our customers, including the military, medical institutions, industrial laboratories, government agencies and industrial corporations. Any decrease in the level of customer acceptance of our products could have a material adverse effect on us.

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We are subject to market risk through our sales to overseas markets.

A growing amount of our sales are being derived from overseas markets. These international sales are primarily focused in Europe and the Middle East. These operations are subject to risks that are inherent in operating in foreign countries, including the following:

- foreign countries could change regulations or impose currency restrictions and other restraints;
- changes in foreign currency exchange rates and hyperinflation or deflation in the foreign countries in which we operate;
- exchange controls;
- in some countries, there is a risk that the government may expropriate assets;
- some countries impose burdensome tariffs and quotas;
- political changes and economic crises may lead to changes in the business environment in which we operate;
- international conflict, including terrorist acts, could significantly impact our financial condition and results of operations; and
- economic downturns, political instability and war or civil disturbances may disrupt distribution logistics or limit sales in individual markets.

In addition, we utilize third-party Distributors to act as our representative for the geographic region that they have been assigned. These Distributors are responsible for maintaining customer account management and in some cases maintaining an inventory of products for those customers within their geographic region. Our success is dependent on these Distributors finding new customers and receiving new orders from existing customers.

Our future performance is dependent upon finding new customers and retaining our existing customers.

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

In several of our market, quality and/or reliability of our products are a major concern for our customers, not only upon the initial manufacture of the product, but for the life of the product. Many of our products are used in remote locations, or higher value assembly, making servicing of our products not feasible. Any failure of the quality and/or reliability of our products could have an adverse affect on us and on our ability to maintain or attract customers.

Customer orders are subject to cancellation or modification at any time.

Our 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. When a customer cancels an order, they are responsible for all finished goods, all costs, direct and indirect, incurred by us, as well as a reasonable allowance for anticipated profits. No assurance can be given that we will receive these amounts after cancellation. The current backlog contains only those orders for which we have 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 2006.

The markets for many of our products are characterized by changing technology.

The markets for many of our products are characterized by changing technology, new product introductions and product enhancements, and evolving industry standards. The introduction or enhancement of products embodying new technology or the emergence of new industry standards could render existing products obsolete or result in short product life cycles. Accordingly, our ability to compete is in part dependent on our ability to continually offer enhanced and improved products.

We are dependent on key in-house manufacturing equipment or processes to deliver a custom product (solution) with the highest performance and short time to market.

We depend on key in-house manufacturing equipment and assembly processes. We believe that these key manufacturing and assembly process give us the flexibility and responsiveness to meet our customer delivery schedule and performance specification with a custom product. This value proposition is an important component of our offering to our customers. A loss of these capabilities could have an adverse effect on our existing operations and new business growth.

Changes in the spending priorities of the federal government can materially adversely affect our business.

In fiscal 2006, approximately 33.0 % of our sales were related to products purchased by military contractors. Our business depends upon continued federal government expenditures on defense, intelligence, aerospace and other programs that we support. In fiscal 2006, our sales to military contractors enjoyed a strong steady growth rate. In addition, foreign military sales are affected by U.S. Government regulations, regulations by the purchasing foreign government and political uncertainties in the U.S. and abroad. There can be no assurance that the U.S. defense and military budget will continue to grow or that sales of defense related items to foreign governments will continue at present levels. In addition, the terms of defense contracts with the U.S. Government generally permit the Government to terminate such contracts, with or without cause, at any time. Any unexpected termination of a significant U.S. Government contract with a military contractor that we sell our products to could have a material adverse effect on us.

Our industry is highly competitive and fragmented.

We compete with a range of companies for the custom optoelectronic and silicon photodetector requirements of customers in our target markets. We believe that our principal competitors for sales of custom devices are small to medium size companies. Because we specialize in custom devices requiring a high degree of engineering expertise to meet the requirements of specific applications, we generally do 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. We cannot assure you that we will be able to compete successfully in our markets against these or any future competitors.

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Our industry is sensitive to changing economic conditions.

We believe that many factors affect our industry, including consumer confidence in the economy, interest rates, fuel prices and credit availability. The overall economic climate or Gross National Product growth has a direct impact on our customers and the demand for our products. We cannot assure you that our business will not be adversely affected as a result of an industry or general economic downturn.

We are subject to 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 we maintain certain environmental permits. We believe that we have obtained all necessary environmental permits required to conduct our 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.

If we are unable to protect our intellectual property rights adequately, the value of our products could be diminished.

We utilize proprietary design rules and processing steps in the development and fabrication of our PIN photodiodes, avalanche photodiodes and our Terahertz systems and sensors. In addition, we have over 100 patents or patents pending utilized in our products. There can be no assurance that any issued patents will provide us with significant competitive advantages, or that challenges will not be instituted against the validity or enforceability of any patent utilized by us, 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 and could have a material adverse effect on our operating results. Furthermore, there can be no assurance that our APD technology will not infringe on patents or rights owned by others, licenses to which might not be available to us. Based on limited patent searches, contacts with others knowledgeable in the field of APD technology, and a review of the published materials, we believe that our competitors hold no patents, licenses or other rights to the APD technology which would preclude us from pursuing our intended operations.

In some cases, we may rely on trade secrets to protect our 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 our projects, disputes might arise as to the proprietary rights to such information which may not be resolved in our favor.

We face strong competition for skilled workers.

Our success depends in large part on its ability to attract and retain highly qualified scientific, technical, management, and marketing personnel. Competition for such personnel is intense and there can be no assurance that we will be able to attract and retain the personnel necessary for the development and operation of our business.

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We may not be able to successfully integrate future acquisitions, which could result in our not achieving the expected benefits of the acquisition, the disruption of our business and an increase in our costs.

Over the past three years, we have acquired 3 businesses and we continually explore opportunities to acquire related businesses, some of which could be material to us. Our ability to continue to grow may depend upon identifying and successfully acquiring attractive companies, effectively integrating these companies, achieving cost efficiencies and managing these businesses as part of our company.

We may not be able to effectively integrate the acquired companies and successfully implement appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these acquisitions. Our efforts to integrate these businesses could be affected by a number of factors beyond our control, such as regulatory developments, general economic conditions and increased competition. In addition, the process of integrating these businesses could cause the interruption of, or loss of momentum in, the activities of our existing business. The diversion of management s attention and any delays or difficulties encountered in connection with the integration of these businesses could negatively impact our business and results of operations. Further, the benefits that we anticipate from these acquisitions may not develop.

Risks Relating to Our Class A Common Stock

Our share price has been volatile in the past and may decline in the future.

Our Class A common stock has experienced significant market price and volume fluctuations in the past and may experience significant market price and volume fluctuations in the future in response to factors such as the following, some of which are beyond our control:

- quarterly variations in our operating results;

- operating results that vary from the expectations of securities analysts and investors;

- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

- announcements of technological innovations or new products by us or our competitors;

- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

- changes in the status of our intellectual property rights;

- announcements by third parties of significant claims or proceedings against us;

- additions or departures of key personnel;

- future sales of our ordinary shares; and

- stock market price and volume fluctuations.

Stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events or hostilities in or surrounding the United States, could adversely affect the market price of our Class A common stock.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management s attention and resources both of which could have a material adverse effect on our business and results of operations.

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Future sales of our Class A common stock in the public market could lower our stock price, and conversion of our warrants and any additional capital raised by us may dilute your ownership in us.

We may sell additional shares of Class A common stock in subsequent offerings. In addition, holders of warrants to purchase our Class A common stock will, most likely, exercise their warrants to purchase shares of our Class A common stock after this registration statement is declared effective. We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock will have on the market price of our Class A common stock. Sales of substantial amounts of our Class A common stock, including shares issued in connection with the exercise of the warrants, or the perception that such sales could occur, may adversely affect prevailing market prices for our Class A common stock.

Shares eligible for public sale in the future could decrease the price of our Class A common stock and reduce our future ability to raise capital.

Sales of substantial amounts of our Class A common stock in the public market could decrease the prevailing market price of our Class A common stock, which would have an adverse affect on our ability to raise equity capital in the future.

We do not intend to pay dividends.

We have never declared or paid any cash dividends on our Class A common stock. We currently intend to retain future earnings, if any, to finance operations and expand our business and, therefore, do not expect to pay any dividends in the foreseeable future.

Item 2 Properties

The Company leases all of its executive offices, research, marketing and manufacturing facilities. At March 31, 2006, those leases consisted of primarily 95,000 square feet in three facilities. The facility located at 1240 Avenida Acaso in Camarillo, California is leased through February 2009. A second manufacturing facility is located at 305 County YZ, Dodgeville, Wisconsin, and is leased through November 2007. And a third manufacturing facility is located at 2925 Boardwalk, Ann Arbor, Michigan and is leased through June 2010. The Company believes that its existing facilities are adequate to meet its needs for the foreseeable future.

Item 3. Legal Proceedings

None

Item 4 Submission of Matters to a Vote of Security Holders

None

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PART II

Item 5 Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s Class A Common Stock is traded on the American Stock Exchange (AMEX) under the symbol API . At June 23, 2006, the Company had 104 holders of record for the Class A Common Stock (including shares held in street name), representing approximately 6,000 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 the high and low closing prices of the Company s Class A Common Stock by quarter for fiscal years 2006 and 2005.

	Quarterly Stock Market Data							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2006	2005	2006	2005	2006	2005	2006	2005
Common Stock[1]								
High	3.09	3.21	3.56	2.57	3.24	1.85	2.97	2.17
Low	2.04	2.02	2.62	1.65	2.39	1.57	2.59	1.64

1 Price ranges on the American Stock Exchange

The Company has never 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 Selected Financial Data

The selected financial data for each of the five years presented below is derived from our audited consolidated financial statements and should be read in conjunction with the consolidated financial statements, the notes to the consolidated financial statements, and Management s Discussion and Analysis of Financial Condition and Results of Operations , all of which are contained in this report on Form 10-K.

	(in thousands, except per share data)				
	2006 Restated	**2005 Restated**	**2004**	**2003**	**2002**
Net Sales	$23,585	$14,803	$12,401	$ 9,147	$ 6,931
Gross Profit	$ 9,183	$ 4,732	$ 4,297	$ 2,699	$ 2,761
as a percentage of Sales	39%	32%	35%	30%	40%
Net Income (Loss)	$ (5,262)	$ 5,078	$ 794	$ (803)	$ (284)
Earnings (Loss) per common share-Basic	$ (0.30)	$ 0.38	$ 0.06	$ (0.06)	$ (0.02)
Earnings (Loss) per common share-Diluted	$ (0.30)	$ 0.33	$ 0.06	$ (0.06)	$ (0.02)
Weighted average common shares outstanding	17,477	13,461	13,400	12,356	12,209
Total Assets	$38,001	$23,355	$12,574	$11,552	$ 9,255
Current Liabilities	$ 5,135	$ 3,185	$ 2,858	$ 2,640	$ 612
Long Term Liabilities	$ 7,403	$ 3,834	$ 11	$ 22	$
Class A redeemable convertible preferred stock	$ 32	$ 32	$ 32	$ 32	$ 32
Shareholders Equity	$25,431	$16,304	$ 9,673	$ 8,858	$ 8,611
Working Capital	$ 9,330	$11,261	$ 5,802	$ 4,811	$ 7,461
Dividends declared on Capital Stock	$	$	$	$	$

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Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operation

Application of Critical Accounting Policies

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

Revenue Recognition

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

Impairment of Long-Lived Assets

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

Deferred Tax Asset Valuation Allowance

The Company has incurred losses over the past years, which creates a deferred tax benefit. Up to 2005, we have recorded a valuation allowance that fully reserved the benefit because realization was doubtful. In 2005, with the addition of Picometrix and having had two years of profitable operations, we reduced the allowance to approximately half of the deferred asset. With the acquisition of Picometrix, we recorded a deferred tax liability to reflect the non-deductible nature of the future amortization of the intangible assets acquired. That deferred tax liability will be amortized over the same life as the intangible assets. The results from operations in 2006 were disappointing, so there was more concern regarding utilization of the net operating loss carry-forwards before they expired. As a result, we decided to increase the reserve by approximately $1,000,000 to cover the loss carry-forwards that expire by 2009. While we are still confident that the Company will generate enough earnings to realize much of the loss carry-forwards, no assurances can be given that we will generate future earnings sufficient to cover the entire net asset. We will review the valuation allowance each year and make adjustments to reflect our best estimate of future tax benefit realization.

Inventories

The Company s inventories are stated at standard cost (which approximates the first-in, first-out method) or market. Slow moving and obsolete inventories are reviewed throughout the year. To calculate a reserve for obsolescence, we begin with a review of our slow moving inventory. Any inventory, which has been slow moving within the past 12 months, is evaluated and reserved if deemed appropriate. In addition, any residual inventory, which is customer specific and remaining on hand at the time of contract completion, is reserved

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for at the standard unit cost. The complete list of slow moving and obsolete inventory is then reviewed by the production, engineering and/or purchasing departments to identify items that can be utilized in the near future. These items are then excluded from the analysis and 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. If a product that had previously been reserved for is subsequently sold, the amount of reserve specific to that item is then reversed.

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. 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.

TABLE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the contractual obligations of the Company at March 31, 2006.

CONTRACTUAL OBLIGATIONS		**PAYMENTS DUE BY PERIOD**			
	Total Restated	Within 1 year	1 3 years	3 5 years	More than 5 years
Long-term debt	9,825,000	1,900,000	6,801,000	776,000	348,000
Discount on convertible notes	(2,923,000)	(1,560,000)	(1,363,000)		
Capital lease obligations	27,000	27,000			
Debt to related parties	2,901,000	500,000	1,851,000	550,000	
Subtotal Balance Sheet	**9,830,000**	**867,000**	**7,289,000**	**1,326,000**	**348,000**
Operating lease obligations	4,201,000	1,171,000	2,854,000	176,000	
Purchase Obligations	1,312,000	1,312,000			
Total	**15,343,000**	**3,350,000**	**10,143,000**	**1,502,000**	**348,000**

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RESULTS OF OPERATIONS

Fiscal year 2006 compared to fiscal year 2005

REVENUES

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

	Twelve months ended			
	March 31,2006		March 27, 2005	
Telecommunications	$ 3,129,000	13%	$ 86,000	1%
Industrial Sensing/NDT	10,359,000	44%	7,360,000	49%
Military/Aerospace	5,860,000	25%	4,875,000	33%
Medical	2,228,000	9%	2,482,000	17%
Home Land Security	2,009,000	9%		0%
Total Revenues	$ 23,585,000	100%	$ 14,803,000	100%

The Company s revenues for the fiscal year ended March 31, 2006 (2006) were $23.6 million, an increase of $8.8 million, or 59% of revenues of $14.8 million for the fiscal year ended March 27, 2005 (2005).

Approximately $7.6 million of the increase was attributable to revenues from Picometrix, LLC, which the Company acquired in May 2005 The remaining increase of $1.2 million reflects an overall increase in shipments of 8% to customers in each of the Company s remaining markets over the prior year. This represents approximately $1.4 million in volume increases offset by approximately $0.2 million in price decreases to one customer in the medical market as discussed in the paragraph below.

The acquisition of Picometrix provided the Company entry into the homeland security market with its Terahertz products and contracts and significantly extended its reach in the telecommunication markets with optical receiver products. The most significant revenue increases are from the telecommunications market, which increased $3.0 million, all coming from the Picometrix acquisition. The industrial sensing/NDT market increased 41% or $3.0 million, over the prior year of which $1.7 million was attributable to Picometrix. Sales to the military aerospace market increased 20% over the prior year and accounted for approximately $985,000 of the remaining increase in revenues. Homeland security accounted for $2.0 million of the increase all attributable to Picometrix, Inc. and Medical dropped $254,000 over the prior year mainly due to price reductions for one customer.

As expected, the increased diversification and larger customer base achieved through the Company s acquisitions have resulted in net revenues meeting our expectations for the most recent fiscal year.

COSTS AND EXPENSES

Cost of product sales increased to $14.4 million in 2006 from $10.1 million in 2005. Expressed as a percent of net sales, cost of goods sold was 61% in fiscal year 2006 compared to 68% in fiscal year 2005. As a result, gross profit increased to $9.2 million in fiscal year 2006 from $4.7 million in fiscal year 2005, an increase of 96%. This increase in gross profit is primarily attributable to the acquisition of Picometrix, whose products carry higher gross margins. Stated as a percentage of net sales, material costs were 28% in 2006, the same as in 2005. Material costs did not decrease in FY 06 as a percent of sales, primarily as the result of the $1.1 million inventory write-off in our California facility. The write-off was comprised of $698,000 primarily due to raw material purchases in excess of requirements and obsolescence due to product discontinuance and engineering changes. Another $123,000 was due to obsolete inventory related to the Photonic Detectors Inc. and Texas Optoelectronic Inc. acquisitions in FY05 & FY 03 respectively. The remaining $330,000 was due to scrap, shrinkage and standard cost write-downs. Direct labor and other overhead expenses as a percentage of net sales were 7% and 26% respectively in FY 2006 as compared to 8% and 32% respectively in FY 2005. While our gross margins at our California facility fell short of our expectations for FY 2006, due to the inventory adjustments, scrap and rework, we are actively seeking ways to minimize our costs and improve our margins, and have made margin improvement a priority for FY 2007. One of the steps the Company is taking is the consolidation of wafer fabrication from all three facilities into the Ann Arbor facility.

Research and development (R&D) costs increased by $2.9 million to $3.0 million during FY 2006 compared to $146,000 in FY 2005. The increase in R & D costs is the result of the Company s Picometrix acquisition ($2.7 million) and other non-Picometrix product R&D initiatives, which amounted to $200,000. We expect that R&D expenses will increase in the upcoming fiscal year, as we focus on new opportunities brought to us as a result of the Picometrix acquisition.

Marketing and sales expenses increased by $716,000 (59%) to $1.9 million in FY 2006, which is 8% of sales, which is the same percentage as FY 2005. The acquisition of Picometrix accounted for $545,000 of the sales and marketing expense increase. Planned additions to the sales department during the year accounted for $154,000 of increased compensation, travel and related expenses. Overall advertising and marketing expenses increased by approximately $165,000, primarily associated with products sold into the telecommunications market. The Company is committed to building our sales & marketing function in the telecommunications, home land security, military and industrial sensing markets and anticipates further increases in compensation, travel and related expenses during fiscal 2007.

Total general and administrative expenses increased by $4.1 million (151.4%) to $6.8 million (including amortization and goodwill impairment expense) in FY 2006 as compared to $2.7 million in FY 2005. Expressed as a percentage of net sales, general and administrative expenses represented 29% in FY 2006 as compared to 18% in FY 2005. The increase is primarily attributable to $2.6 million of intangible write-off and amortization, comprised of goodwill impairment of $814,000 for Texas Optoelectronics, intangible amortization of $1.4 million and amortization of financing expenses of $387,000 related to the acquisition of Picometrix. The remaining $1.5 million increased G&A costs was the result of added corporate expenses. The Sarbanes-Oxley Act section 404, internal controls, requires the Company to be compliant by fiscal year ending March 2008, based on current market capitalization. External costs required to be in compliance will materially increase over the next two years.

Interest income for 2006 totaled approximately $ 43,000, same as in 2005, due primarily to capital financing activities, which resulted in higher cash balances available for short-term investment. Interest expense for the year was $2,714,000, as compared to $330,000 in 2005. The increase was the result of capital financing activities and the related interest expense, including amortization of convertible notes discounts of approximately $1,978,000 and $206,000 of related party interest.

The company recorded an income tax provision of $28,000 for FY 2006 as compared to a negative income tax provision of $4.7 million for FY 2005. The difference of $4.7 million is due to the fact that the Company reversed 50% of its deferred tax valuation allowance, in the amount of $4.7 million in FY 2005.

Net loss for fiscal year 2006 was $5.3 million, as compared to net income $5.1 million in 2005, which included the FY2005 $4.7 million adjustment made to reduce the deferred tax valuation allowance. The decrease in net income is attributable to higher operating expenses, interest expense and the inventory write

down at the California facility, offset partially by higher gross profit attributable to the Picometrix acquisition.
Non-cash operating expenses for FY 2006 were $5,411,000 compared to $743,000 for fiscal year 2005, an increase of $4,668,000 which is the result of goodwill impairment of $814,000, increase interest expense of $1,802,000 related to convertible notes discount amortization and depreciation and intangible amortization of $2,052,000, associated with the Picometrix acquisition.

Inventory

Expense related to Inventory write-offs for FY 2006 compared to FY 2005 increased approximately $1.1 million from $36,000 in FY 2005 to $1.2 million in FY 2006. This is comprised of slow moving and obsolete inventory of approximately $821,000; of which $123,000 was associated with the acquisitions of Texas Optoelectronics Inc. (FY 03) and Photonic Detector Inc. (FY 05). The balance of $698,000 was slow moving-excess-obsolete inventory from operations. The remaining $330,000 is derived from standards reductions, physical inventory quantity adjustments and scrap.

Fiscal year 2005 compared to fiscal year 2004

REVENUES

The Company s revenues for the fiscal year ended March 27, 2005 (2005) were $14.8 million, an increase of $2.4 million, or 19% from revenues of $12.4 million for the fiscal year ended March 28, 2004 (2004).
Approximately $500,000 of the increase was attributable to revenues from Photonic Detectors, Inc. (PDI), which the Company acquired inDecember 2004. The remaining increase reflects an overall increase in shipments to customers in each of the Company s major market segments over the prior year. As has been the trend for most of the current fiscal year, the most significant revenue increases are coming from the medical and industrial sensing segments, which increased by 34% and 17% respectively over the prior year and account for $1.5 million of the total increase. Similarly, sales to the military aerospace and automotive markets have also increased, by 5% and 17% respectively, and account for approximately $400,000 of the remaining increase in net revenues. Stated as a percentage of net revenues, sales to the industrial sensing market represents 49%, sales to the military/ aerospace market represents 33%, medical is 17% and telecommunications is 1%.
As expected, the increased diversification and larger customer base achieved through the Company s previous acquisitions resulted in net revenues, which fully met our expectations for fiscal year 2005.

COSTS AND EXPENSES

Cost of product sales increased to $10.1 million in 2005 from $8.1 million in 2004. Stated as percent of net sales, cost of product sales increased 3 percentage points to 68%, reducing our gross profit margin to 32% in 2005 as compared to 35% in fiscal year 2004. The reduction in gross margin is primarily attributable to manufacturing issues; including labor inefficiencies and a significant increase in material costs related to scrap, rework and assembly yields. Stated, as a percentage of net sales, material costs rose to 28% in 2005 as compared to 25% in 2004. In 2005, we were again faced with heightened competitiveness in certain markets which caused us to absorb increases in certain material costs while maintaining or reducing existing pricing in our efforts to generate new business as well as retain existing business. Direct labor and other overhead expenses as a percentage of net sales remained flat at 8% and 32%, respectively, in 2005 as compared to 2004. While our gross margins fell slightly short of our expectations for 2005, we continued to seek ways to improve our cost and margin structure, and made margin improvement a continued priority during 2006.
Research and development (R&D) costs decreased by $134,000 (48%) to $146,000 during 2005 compared to $280,000 in 2004. R & D costs decreased significantly over the past two years as we concentrated our efforts on projects offering the highest commercial potential per each dollar spent.

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Marketing and sales expenses increased by $205,000 (20%) to $1.2 million in 2005. Planned additions to the sales department staff during the year accounted for $113,000 of increased salary, travel and related expenses. In addition, increased sales contributed to a $68,000 increase in commission expense and overall advertising and marketing expenses increased by approximately $24,000. The Company remains committed to insuring that our customers receive excellent service.

Total general and administrative expenses increased by $541,000 (25%) to $2.7 million in 2005 as compared to approximately $2.1 million in 2004. Approximately 50% of the increase in general and administrative expenses is due to increased personnel and related expenses, including salaries, bonuses and benefits to support our growth objectives. In addition, total payroll was increased during the fourth quarter of fiscal 2005 as a direct result of the PDI acquisition, which was consummated on December 21, 2004. As part of our integration plan, selected PDI personnel were either offered a permanent position or requested to remain as an employee until a date specified by the Company. The net effect of the additional PDI personnel accounted for approximately $160,000 of the year to date increase. The remaining increases in general and administrative expenses were primarily due to acquisition investigation and related expenses, including consultants, legal, financing and other related expenses, which amounted to approximately $246,000 in total.

Interest income for 2005 totaled $43,000, an increase of $23,000 over 2004, due primarily to capital financing activities, which resulted in higher cash balances available for short-term investment. Interest expense for the year was $330,000 as compared to $30,000 in 2004, due primarily to the amortization of convertible notes discounts of approximately$176,000, capital financing activities and the related interest liabilities.

At March 27, 2005, the Company reversed 50% of its deferred tax valuation allowance, in the amount of $4.7 million. The deferred tax valuation allowance had previously been recorded at full value against its deferred tax assets, reducing the net value of the asset to zero. With the acquisition of both Photonic Detectors Inc. in December 2004 and Picometrix, Inc. in May 2005, the Company s management projected that the Company would generate sufficient future taxable income to utilize at least a portion of its accumulated NOL s before they expire and has accordingly reduced the deferred tax asset valuation allowance to $4.7 million against a deferred tax asset of $9.5 million, bringing the net value of the deferred tax asset to $4.8 million at March 27, 2005. The reduction in the valuation allowance was recorded as a deferred tax benefit in the statement of operations.

Net income for fiscal year 2005 was $5.1 million, including the $4.7 million adjustment made to reduce the deferred tax valuation allowance, as compared to $794,000 in 2004. Total acquisition-related expenses for fiscal year 2005 which were necessary to support our growth objectives amounted to $736,000 (which includes interest expense of $330,000, plus the $406,000 increased general and administrative expenses associated with PDI and other acquisition investigation activities, as noted above). Thus, excluding the net impact of the deferred tax asset adjustment and acquisition-related expenses, net income for fiscal 2005 would have been $1.1 million, or $0.08 per share.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, the Company had unrestricted cash and cash equivalents of $5.9 million, an increase of $4.4 million, from $1.5 million as of March 27, 2005. The Company believes that current cash levels combined with our revolving line of credit will be sufficient for our 2007 fiscal year. On March 21, 2006, the Company received $4 million in net proceeds from the placement of a note payable that is convertible into Class A Common stock as discussed below.

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The Company maintains a revolving line of credit with a regional bank that provides for borrowings up to $3.0 million, based on 80% of the Company s eligible accounts receivable and 40% of the Company s eligible inventory, subject to certain limitations as defined by the agreement. At March 31, 2006, the outstanding balance on the line was $1.0 million. All business assets of the Company secure the line. As most recently amended, repayment is interest only monthly, with principal due at maturity date on November 3, 2006. Interest is computed at the prime rate as published in the Wall Street Journal plus $^{1}/2$% with a floor of 6.5%. The prime interest rate was 7.75% at March 31, 2006.

In May 2005, the Company borrowed $2.7 million from a regional bank. The loan is guaranteed by all of the Company s subsidiaries. Repayment is principal of $75,000 per month, plus interest, until maturity on May 2, 2008. Interest is computed at the prime rate as published in the Wall Street Journal plus 1% with a ceiling of 7.75% and a floor of 6%.

Debt & Notes Payable

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

In September 2005, the Company issued $1.0 million of convertible debt with warrants to purchase 170,164 shares of common stock (Convertible Debt 2nd Tranche). The Company originally valued the warrants and recorded an increase to additional paid-in-capital amounting to $27,000. Subsequently, the Company determined that the beneficial conversion option and the warrants should have been valued using the Intrinsic Value approach. Accordingly, the Company recognized a $1.0 million debt discount on the $1.0 million principal value of the convertible note payable and the debt discount is amortized over the life of the note. The note was converted in November 2005 into 472,678 shares of Class A common stock. In addition, 85, 082 of the warrants were converted and the Company received $151,446 in cash. At March 31, 2006 the balance of unexercised warrants was 85,082.

In March 2006, the Company issued $4.0 million of convertible debt (Convertible Debt 2nd Tranche) with warrants to purchase 680,658 shares of common stock. The Company originally valued the warrants and recorded an increase to additional-paid-in-capital amounting to $1.8 million. Subsequently, the Company determined that the beneficial conversion options and warrants should have been valued using the Intrinsic Value approach. Accordingly, the Company recognized a $2.7 million debt discount on the $4.0 million principal value of the convertible note payable and is amortizing the debt discount to interest expense over the life of the note. At March 31, 2006 the Convertible Debt 2nd Tranche was $1.3 million (net of the debt discount).

The Michigan Economic Development Corporation (MEDC) entered into two loan agreements with Picometrix LLC, one in 2004 (MEDC-loan 1) and one in 2005 (MEDC-loan 2). Both loans are unsecured. MEDC-loan 1 is for an amount up to $1,024,000 with an interest rate of 7% and is fully amortized by the end of an eight (8) year period (ending on September 15, 2012). Interest is accrued during the first four years, but not paid, after which time principle plus accrued interest is paid over the remaining four years. On September 15, 2004 the Company borrowed $750,000 against the $1.0 million.

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

	Convertible notes Face value	Notes Converted	Convertible notes Balance 3/31/06	Conversion Price	Outstanding Warrants	Exercise Price
Round 1 financing	$ 5,000,000	$3,475,000	$1,525,000	$1.9393	680,658	$1.78
Round 2 Financing	5,000,000	1,000,000	4,000,000	$2.1156	765,740	$1.78
Total	$10,000,000	$4,475,000	$5,525,000		1,446,398	

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Operating Activities

Net cash used in operating activities of $783,000 for the year ended March 31, 2006 was primarily the result of our net operating loss of ($5,262,000), an increase in accounts receivable of $712,000, an increase in prepaid expenses of $355,000, a decrease in accrued expenses of $645,000, and a decrease in accounts payable of $336,000; offset by decreases in goodwill due to impairment charges of $814,000, decreases in inventory (including the provision for obsolescence) of $958,000, depreciation & amortization of $4,597,000 and other assets of $158,000.

Net cash provided by operating activities of $228,000 for the year ended March 27, 2005 was primarily the result of our net operating profit of $5,078,000, a decrease in our deferred tax valuation allowance of $4,749,000, an increase in inventory of $291,000, an increase in prepaid acquisition and capital finance expenses of $532,000, an increase in prepaid expenses of $193,000, and a decrease in customer deposits of $477,000; offset by an increase in accounts payable and other accrued expenses of $507,000, depreciation & amortization of $799,000 and a decrease in accounts receivable of $71,000.

Net cash provided by operating activities of $1,216,000 for the year ended March 28, 2004 was primarily the result of our net operating profit of $794,000, an increase in accounts receivable of $176,000, a decrease in accounts payable of $73,000, a decrease in other accrued expenses of $125,000; offset by a decrease in inventory of $307,000.

Investing Activities

Net cash used in investing activities was $3.0 million for the year ended March 31, 2006. The amount primarily consisted of cash paid for the acquisition of Picometrix of $3.5 million and related expenses of $936,000, net of cash acquired of $678,000 and change in restricted cash of $1.3 million. Capital expenditure activity for the year accounted for $263,000 of the cash used, and patent expenditures were $191,000 for the year.

Net cash used in investing activities was $5,049,000 for the year ended March 27, 2005. The amount primarily consisted of $4,228,000 loan to Picometrix, $1,254,000 in a restricted cash collateral account subject to release upon satisfaction of certain conditions (which conditions were subsequently met), $193,000 was used for capital expenditures required primarily for necessary computer and manufacturing equipment upgrades or replacements, and $1,117,000 for purchases of outstanding shares of PDI common stock; offset by $1,700,000 transferred from short-term investments into cash.

Net cash used in investing activities was $608,000 for the year ended March 28, 2004. The amount primarily consisted of a $300,000 transfer of cash to short term investments and $298,000 used for capital expenditures.

Financing Activities

Net cash provided by financing activities was $8.4 million for the year ended March 31, 2006. This primarily reflects the $2.7 million cash proceeds from the term loan relating to the Picometrix acquisition reduced by ten months of loan repayment of $750,000, $5.0 million of cash proceeds from convertible notes ($1 million in September 05 and $4 million in March 06), $455,000 of cash paid for warrants to purchase the Company s

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Class A Common Stock and $600,000 of cash proceeds from a tem loan by the Michigan Economic Development Corporation. Payments of $300,000 were made during the year to equipment vendors to adhere to unsecured financing arrangements. Employees exercised stock options for approximately $47,000.

Net cash provided by financing activities was $5.0 million for the year ended March 27, 2005. The amount primarily consisted of $5.0 million obtained through private placement of a convertible note, a revolving line of credit of $1,000,000; offset by a pay-down of $900,000 against the secured term loan and repayment of a PDI line of credit of $78,000.

Net cash used in financing activities was $211,000 for the year ended March 28, 2004. The amount primarily consisted of $23,000 in proceeds from the sale of fixed assets, proceeds from exercise of stock options of $66,000; offset by a pay-down of $300,000 against the secured term loan.

The Company is exposed to interest rate risk for marketable securities. We continually monitor interest rates and will attempt to utilize the best possible avenues of investment as excess cash becomes available.

Item 7A Quantitative and Qualitative Disclosures about Market Risk

At March 31, 2006, most of the Company s interest rate exposure is linked to the prime rate, subject to certain limitations. Offset by cash investment tied to prime rate. As such, we are at risk to the extent of changes in the prime rate and do not believe that moderate changes in the prime rate will materially affect our operating results or financial condition.

FORWARD LOOKING STATEMENTS

The information contained herein includes forward looking statements that are based on assumptions that management believes to be reasonable but are subject to inherent uncertainties and risks including, but not limited to, risks associated with the integration of newly acquired businesses, unforeseen technological obstacles which may prevent or slow the development and/or manufacture of new products, limited (or slower than anticipated) customer acceptance of new products which have been and are being developed by the Company, the availability of other competing technologies and a decline in the general demand for optoelectronic products.

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Item 8. Financial Statements and Supplementary Data

The following financial statements of Advanced Photonix, Inc. are included in Item 8:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Advanced Photonix, Inc. (the Company) as of March 31, 2006 and March 27, 2005 and the related consolidated statements of operations, shareholders equity and cash flows for each of the years ended March 31, 2006, March 27, 2005 and March 28, 2004. 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 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2006 and March 27, 2005 and the results of its operations and its cash flows for the years ended March 31, 2006, March 27, 2005 and March 28, 2004 in conformity with accounting principles generally accepted in the United States.

/s/ Farber Hass Hurley & McEwen LLP

June 9, 2006, except note 2, which is
November 6, 2006

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ADVANCED PHOTONIX, INC.
CONSOLIDATED BALANCE SHEETS

As of:	March 31, 2006 Restated	March 27, 2005 Restated
Assets		
Current assets:		
Cash and cash equivalents	$ 5,933,000	$ 1,503,000
Restricted cash		1,254,000
Accounts receivable, net of allowance for doubtful accounts of $46,000 and $24,000 for March 31, 2006 and March 27, 2005, respectively.	4,387,000	2,610,000
Note receivable from Picometrix		4,228,000
Inventory , less allowance of $2,181,000 in 2006 and $1,032,000 in 2005	3,434,000	3,644,000
Prepaid expenses and other current assets	711,000	563,000
Deferred tax asset, current portion		644,000
Total current assets	14,465,000	14,446,000
Equipment and leasehold improvements		
Equipment and leasehold improvements	7,923,000	5,118,000
Accumulated depreciation	(4,548,000)	(3,719,000)
Equipment and leasehold improvements, net	3,375,000	1,399,000
Other assets		
Goodwill, net of accumulated amortization of $353,000 for March 31, 2006 and March 27, 2005.	4,719,000	2,421,000
Intangibles, net of accumulated amortization of $1,399,000 and $181,000 for March 31, 2006 and March 27, 2005, respectively	14,155,000	481,000
Patents, net of accumulated amortization of $55,000 and $51,000 for March 31, 2006 and March 27, 2005, respectively	16,000	13,000
Patents pending	184,000	
Prepaid capital finance expenses, net of current portion and accumulated amortization in 2006 and 2005 of $181,000 and $83,000, respectively	84,000	315,000
Certificates of deposit	275,000	
Security deposits and other assets	105,000	175,000
Deferred income taxes	623,000	4,105,000
Total other assets	20,161,000	7,510,000
Total assets	$ 38,001,000	$ 23,355,000

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ADVANCED PHOTONIX, INC.
CONSOLIDATED BALANCE SHEETS Continued

	March 31, 2006 Restated	March 27, 2005 Restated
Liabilities and shareholders equity		
Current liabilities		
Line of credit	$ 1,000,000	$ 1,000,000
Accounts payable	982,000	1,053,000
Compensation and related withholdings	697,000	529,000
Customer deposits	1,000	
Deferred income	76,000	271,000
Other accrued expenses	952,000	321,000
Current portion of long-term debt, related party	500,000	
Current portion of long-term debt	927,000	11,000
Total current liabilities	5,135,000	3,185,000
Long-term debt, less current portion	5,002,000	3,834,000
Long-term debt, less current portion related party	2,401,000	
Total liabilities	12,538,000	7,019,000
Commitments and contingencies:		
Class A redeemable convertible preferred stock, $.001 par value; 780,000 shares authorized; 2006 and 2005 - 40,000 shares issued and outstanding; liquidation preference $32,000	32,000	32,000
Shareholders equity:		
Preferred stock, $.001 par value; 10,000,000 shares authorized; 780,000 shares designated Class A redeemable convertible; 2006 and 2005 - no shares issued and outstanding		
Class A common stock, $.001 par value, 50,000,000 authorized; 2006 - 18,885,006 shares issued and outstanding, 2005 - 13,512,631 shares issued and outstanding.	19,000	13,000
Class B common stock, $.001 par value; 4,420,113 shares authorized, 2006 and 2005 - 31,691 issued and outstanding.		
Additional paid-in capital	43,581,000	29,198,000
Accumulated deficit	(18,169,000)	(12,907,000)
Total shareholders equity	25,431,000	16,304,000
Total liabilities and shareholders equity	$ 38,001,000	$ 23,355,000

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2006, March 27, 2005 and March 28, 2004	2006 Restated	2005 Restated	2004
Sales, net	$23,585,000	$14,803,000	$12,401,000
Cost of products sold	14,402,000	10,071,000	8,104,000
Gross profit	9,183,000	4,732,000	4,297,000
Research and development expenses	3,019,000	146,000	280,000
Sales and marketing expenses	1,930,000	1,214,000	1,009,000
General and administrative expenses	4,157,000	2,508,000	2,087,000
Amortization expense	1,403,000	117,000	78,000
Amortization Capital finance expense	387,000	81,000	
Goodwill impairment expense	814,000		
Total operating expenses	11,710,000	4,066,000	3,454,000
Income (loss) from operations	(2,527,000)	666,000	843,000
Other income (expense):			
Interest income	43,000	43,000	20,000
Interest expense	(322,000)	(13,000)	(30,000)
Interest expense related to convertible notes	(208,000)	(141,000)	
Interest expense, warrant discount	(1,978,000)	(176,000)	
Interest expense, related party	(206,000)		
Other income (expense)	(36,000)	(35,000)	(34,000)
Income (Loss) before provision (benefit) for income taxes	(5,234,000)	344,000	799,000
Provision (benefit) for income taxes Provision (benefit) for income taxes current	28,000	18,000	12,000
Provision (benefit) for income taxes deferred		(4,752,000)	(7,000)
Total provision (benefits) for income taxes	28,000	(4,734,000)	5,000
Net income (loss)	$ (5,262,000)	$ 5,078,000	$ 794,000
Basic earnings (loss) per share	$ (0.30)	$ 0.38	$ 0.06
Diluted earnings (loss) per share	$ (0.30)	$ 0.33	$ 0.06
Weighted average common shares outstanding	17,477,000	13,461,000	13,400,000

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

For the years ended March 31, 2006, March 27, 2005 and March 28, 2004	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-in Capital Restated	Accumulated Deficit Restated	Total
BALANCE AT MARCH 30, 2003	13,369,258	$13,000	31,691	$	$27,625,000	$(18,780,000)	$ 8,858,000
Exercise of Options	77,801				67,000		67,000
Shares issued to acquire TOI assets	(50,000)				(46,000)		(46,000)
Net loss						794,000	794,000
BALANCE AT MARCH 28, 2004	13,397,059	13,000	31,691		27,646,000	(17,986,000)	9,673,000
Exercise of Options	2,000				1,000		1,000
Shares issued to acquire PDI	113,572				207,000		207,000
Discount on note payable (fair value of detachable warrants issued)					1,344,000		1,344,000
Net Income						5,078,000	5,078,000
BALANCE AT MARCH 27, 2005	13,512,631	13,000	31,691		29,198,000	(12,907,000)	16,304,000
Exercise of Options	266,500				272,000		272,000
Notes Conversions	2,264,560	3,000			4,473,000		4,476,000
Shares issued for interest	11,069				21,000		21,000
Discount on note payable (fair value of detachable warrants issued)					3,732,000		3,732,000
Warrants exercised	255,246				454,000		454,000
Shares issued to acquire Picometrix	2,575,000	3,000			5,431,000		5,434,000
Net Income						(5,262,000)	(5,262,000)
BALANCE AT MARCH 31, 2006	18,885,006	$19,000	31,691	$	$43,581,000	$(18,169,000)	$25,431,000

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2006, March 27, 2005 and March 28, 2004	2006 Restated	2005 Restated	2004
CASH FLOWS FROM OPERATING ACTIVITIES Net income (loss)	$(5,262,000)	$ 5,078000	$ 794,000
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation	829,000	369,000	328,000
Amortization	1,790,000	198,000	78,000
Disposal of fixed assets		56,000	39,000
Goodwill impairment charges	814,000		
Amortization, convertible note discount	1978,000	176,000	
Provision for doubtful accounts			(36,000)
Provision for obsolete inventory	821,000		70,000
Provision for warranty expense		15,000	
Increase (decrease) in deferred tax valuation allowance		(4,749,000)	
Changes in operating assets and liabilities:			
Accounts receivable	(712,000)	71,000	(176,000)
Inventories	137,000	(291,000)	307,000
Prepaid expenses and other current assets	(355,000)	(193,000)	27,000
Prepaid acquisition costs		(134,000)	(17,000)
Prepaid capital finance expenses		(398,000)	
Other assets	158,000		
Accounts payable	(336,000)	428,000	(73,000)
Customer deposit liability		(477,000)	
Accrued expenses	(645,000)	79,000	(125,000)
Net cash provided by (used in) operating activities	(783,000)	228,000	1,216,000
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(263,000)	(193,000)	(298,000)
Patent expenditures	(191,000)		
Short term investments		1,700,000	(300,000)
Change in restricted cash	1,254,000	(1,254,000)	
Cash acquired through acquisition of Photonic Detectors, Inc.		44,000	
Cash acquired through acquisition of Picotronix, Inc.	678,000		
Cash paid for Picotronix, Inc acquisition	(3,500,000)		
Cash paid for acquisition related costs	(936,000)		
Purchase of outstanding shares of Photonic Detectors, Inc. common stock		(1,117,000)	
Loan to Picometrix, Inc.		(4,228,000)	
Intangible assets acquired			(10,000)
Purchase of selected net assets of Silicon Sensors, LLC			
Net cash used in investing activities	(2,958,000)	(5,048,000)	(608,000)

(continued)

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ADVANCED PHOTONIX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS Continued

For the years ended March 31, 2006, March 27, 2005 and March 28, 2004	2006 Restated	2005 Restated	2004
CASH FLOWS FROM FINANCING ACTIVITIES Repayment of Photonic Detectors, Inc. line of credit		(78,000)	
Advanced Photonix, Inc. secured term loan	1,950,000	(900,000)	(300,000)
Advanced Photonix, Inc. revolving line of credit (asset-based)		1,000,000	
Payments on notes payable	119,000		
Proceeds from private placement of convertible note	5,000,000	5,000,000	
Proceeds from sale of fixed assets			23,000
Proceeds from MEDC term loan	600,000		
Proceeds from exercise of warrants	455,000		
Proceeds from exercise of stock options	47,000	2,000	66,000
Net cash provided by (used in) financing activities	8,171,000	5,024,000	(211,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,430,000	204,000	397,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,503,000	1,299,000	902,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$5,933,000	$1,503,000	$1,299,000

See notes to consolidated financial statements.

Supplemental disclosure of cash flow information:

	2006	2005	2004
Cash paid for interest	$623,000	$153,000	$30,000
Cash paid for income taxes	$ 17,000	$ 19,000	$ 5,000

Supplemental disclosure of non-cash operating, investing and financing activities:

Picometrix acquisition in FY 2006	
Assets acquired	$ 19,404,000
Liabilities assumed	(2,406,000)
Net assets acquired	16,998,000
Cash Paid	(3,500,000)
Broker fees and other direct costs	(936,000)
	12,562,000
Non-cash investing activities:	
Common stock issued	(5,433,000)
Note payable related	(2,901,000)
Picometrix note retired	(4,228,000)
Net balance	$

In October 2004 (FY05), the Company issued $5.0 million in secured debt to be used for future acquisition. In conjunction with that debt, the Company issued warrants convertible into 850,822 shares of the Company s common stock. The warrants issued were adjusted to present value. The adjustment was $141,000 to additional paid-in capital. The company amortized $176,000 of the discount to interest expense in FY2005 and $938,000 of the discount to interest expense in FY 2006. The remaining balance of $230,000 will be amortized over the remaining life of the convertible note which matures in Oct 2007 or sooner if the note is converted. During FY 2006 $4,475,000 of the convertible notes was converted into 2,275,631 shares of the Company s Class A Common Stock.

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ADVANCED PHOTONIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Summary of the Company and Significant Accounting Policies

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

The Company s wholly owned subsidiary, Silicon Sensor, Inc. (SSI) (see Note 9 Acquisitions), manufactures silicon photodiodes and optoelectronic devices in a manufacturing facility in Dodgeville, Wisconsin.

The Company s wholly owned subsidiary, Texas Optoelectronics, Inc. (TOI) (see Note 9 Acquisitions), manufactured optoelectronic devices 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.

In December 2004 the Company acquired all of the outstanding shares of Photonic Detectors, Inc. (PDI) (see Note 9 Acquisitions), PDI manufactured optoelectronic devices in a facility in Simi Valley, California. The acquired facility was shut down in March 2005 and all assets were merged into the operations in Dodgeville, Wisconsin and Camarillo, California.

In May 2005 the Company acquired all the outstanding shares 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 the Company, pursuant to an Agreement and Plan of Merger dated March 8, 2005 by and among the Company, 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 and continues its operations in Ann Arbor, Michigan.

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.

Reclassifications Certain prior year balances have been reclassified in the consolidated financial statements to conform to the current year presentation. Sales in the automotive market, which were $698,000 and $838,000 in FY 2006 and FY 2005, respectively, are now classified with Industrial/NDT market.

Fiscal Year-End With the fiscal 2006 year-end, the Company s fiscal year ends on the last calendar day in March. Prior fiscal years ended on the last Sunday of March. As a result of this change, fiscal year ended March 31, 2006 contains fifty-three weeks. The prior two fiscal years ending March 27, 2005 and March 28, 2004 contain fifty-two weeks each.

Operating Segment Information The Company predominantly operates in one industry segment, light and radiation detection devices.

Significant Accounting Policies

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.

Revenue Recognition The Company recognizes revenues upon shipment. Provision for estimated losses, if any, is made in the period in which such losses are determined.

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

Warranties The Company typically warrants its products against defects in material and workmanship. Custom opto products shipped from the California and Wisconsin facilities are warranted for a period of 90 days from the date of shipment. Optical receiver and Terahertz products shipped from the Michigan facility are warranted for a period of 1 year from the date of shipment.

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.

As of March 31, 2006, the Company held $4.0 million in a short-term Master Hold-in-Custody Repurchase agreement with a major California bank. Repurchase agreements are not considered a bank deposit, and are therefore not insured by the FDIC. These funds are backed by securities owned by Pacific Capital Bank, N.A. and are held in a safekeeping account. Current interest earned on this short-term investment range from 4-5 %. The investment period ranges from 7-30 days.

Restricted Cash - As a condition of the Senior Convertible Note (see note 14), the Company established a cash collateral account with a bank and a control agreement with a collateral agent. The agreement grants the holder of the note a first priority-perfected interest in the account. Conditioned upon certain defined events and permitted acquisitions; the collateral agent may release the funds to the Company. In May 2005 (see note 9) the Company concluded a permitted acquisition allowing for the release of the restricted funds.

Accounts Receivable. Receivables are stated at amounts estimated by management to be the net realizable value. The allowance is based on specific identification. Accounts receivable are charged off when it becomes apparent based upon age or customer circumstances that such amounts will not be collected. Collateral is not typically required, nor is interest charged on accounts receivable balances.

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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 31, 2006, one customer comprised 14% of accounts receivable. As of March 27, 2005, one customer comprised 22% of accounts receivable. As of March 28, 2004, two customers comprised 14% and 13%, respectively, of accounts receivable. As of March 31, 2006, the Company had 18 customers with balances over 90 days.

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

Concentration of Credit* Ri*sk Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash equivalents and trade accounts receivable. The Company maintains cash balances at five financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. As of March 31, 2006, the Company had cash at three 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 Money Market instruments, and Repurchase agreements. For fiscal years 2006, 2005 and 2004, cash deposits held at financial institutions in excess of FDIC insured amounts were as follows:

2006	2005	2004
$ 1,433,000	$ 2,421,000	$ 1,013,000

Significant Customer During the fiscal year ended March 31, 2006, no single customer accounted for more than 10% of the Company s net sales. During the fiscal years ended March 27, 2005, two customers represented 12% and 12% of the Company s net sales, and March 28, 2004, no customer accounted for more than 10% of the Company s net sales.

Shipping and Handling Costs The Company s policy is to classify shipping and handling costs as a component of Costs of Goods Sold in the Statement of Operations.

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.

Intangible Assets

Intangible Assets The Company records goodwill, which represents the excess of cost over fair value of net assets. Other intangibles are recorded at cost. These intangible assets are associated with the value of the acquired non-compete agreement, customer list, trademarks, R&D contacts, and technology/patents. These intangible assets are amortized using the straight-line method over their various estimated useful lives up to 15 years.

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.

Impairment of Long-Lived Assets The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142. *Goodwill and Intangible Assets* (SFAS 142). In accordance with SFAS 142 goodwill is not amortized but instead will be tested for impairment at least annually and more frequently if certain indicators are present. The Company recognizes impairment losses on long-lived assets used in operations when 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 estimate fair value. Long-lived assets consist primarily of goodwill and fixed assets.

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. The company generally retains intellectual property rights related to paid research and development contracts.

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 12).

2. Restatement for changes in Accounting for Convertible Securities with a Beneficial Conversion Feature

In accordance with guidance issued by the Financial Accounting Standards Board and the Emerging Issues Task Force regarding Accounting for Convertible Securities with a Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, the Company recognized an embedded beneficial conversion feature present in the Convertible Note. In its original calculation, the debt discount calculated by the valuation of the beneficial conversion feature and the attached warrants was less than the revised calculations. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of $3,165,000 of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Notes.

In connection with the placement of the Convertible Notes in October 2004, September 2005 and March 2006, the Company issued detachable warrants granting the holders the right to acquire 1,446,398 shares of the Company s common stock at $1.78 per share. The warrants expire five years from the date of registration. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF -0027), the Company recognized the value attributable to the warrants in the amount of $1,881,000 to additional paid-in capital and a discount against the Convertible

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Notes. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.9%, a dividend yield of 0%, and volatility of 72%, 52% and 52%, respectively.

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

The Company recorded non-cash interest expense in the amount of $1,978,000 during fiscal year 2006 as compared to $176,000 recorded in fiscal year 2005.

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

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

Consolidated Statement of Operations	**As Reported**	**Restated**
Interest expense, warrant fair value		(1,978,000)
Interest expense related to convertible debt	(389,000)	(208,000)
Income (loss) before provisions for income taxes	(3,437,000)	(5,234,000)
Net Income (Loss)	(3,465,000)	(5,262,000)
Basic earnings (loss) per share	$ (0.20)	$ (0.30)
Diluted earnings (loss) per share	$ (0.20)	$ (0.30)

The changes to the Balance Sheet and Statement of Operations as of and for the year ended March 27, 2005 are as follows:

Balance Sheet	**As Reported**	**Restated**
Long-term debt, less current portion	4,861,000	3,834,000
Total liabilities	8,046,000	7,019,000
Additional paid-in capital	27,995,000	29,198,000
Accumulated deficit	(12,731,000)	(12,907,000)
Total shareholders equity	15,277,000	16,304,000

Consolidated Statement of Operations	As Reported	Restated
Interest expense, warrant fair value		(176,000)
Income (loss) before provisions for income taxes	520,000	344,000
Net Income (Loss)	5,254,000	5,078,000
Basic earnings (loss) per share	$ 0.39	$ 0.38
Diluted earnings (loss) per share	$ 0.34	$ 0.33

3. **Inventories**

Inventories consist of the following at March 31, 2006 and March 27, 2005

	2006	2005
Raw material	$ 4,288,000	$ 3,129,000
Work-in-process	937,000	1,245,000
Finished products	390,000	302,000
Total inventories	5,615,000	4,676,000
Less reserve	(2,181,000)	(1,032,000)
Inventories, net	$ 3,434,000	$ 3,644,000

Inventory Adjustments FY 2006

Past company practice was to review items with no movement and reserve 100% of those with no movement in the past twenty-four (24) months and 40% with no movement in the past twelve (12) months. The Company expanded its review of slow moving and obsolete to include items that had minimal movement in the past twelve (12) months and to review inventory with no movement in the past twelve (12) months to determine the appropriateness of the 40% reserve. The table below summarizes the $1.15 million charge to material cost of goods sold and reduction in inventory for FY 2006. Approximately $1.0 million of this charge occurred in the fourth quarter.

FY 2006 Inventory Adjustments

Increase in provision for slow moving/excess/obsolete inventory	$ 698,000
Write-off obsolete-slow moving inventory from acquisitions (PDI/TOI)	123,000
Subtotal obsolete inventory	821,000
Scrap inventory	159,000
Reduction in material standards	118,000
Inventory shrinkage	53,000
Subtotal Other	330,000
Total inventory reduction	$ 1,151,000

4. **Equipment and Leasehold Improvements**

Equipment and leasehold improvements consist of the following at March 31, 2006 and March 27, 2005:

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	2006	2005
Machinery and equipment	$ 6,133,000	$ 3,795,000
Furniture and fixtures	516,000	154,000
Leasehold improvements	394,000	294,000
Data processing equipment	439,000	322,000
Vehicles	26,000	26,000
Capitalized software	401,000	382,000
Construction-in-process	14,000	68,000
Assets held for sale or disposal	0	77,000
Total assets	7,923,000	5,118,000
Accumulated depreciation	(4,548,000)	(3,719,000)
Net plant, property & equipment	$ 3,375,000	$ 1,399,000

Depreciation expense was $829,000 for fiscal year ended March 31, 2006, $369,000 for fiscal year ended March 27, 2005 and $328,000 for fiscal year ended March 28, 2004.

5. Intangible Assets and Goodwill

***Intangible Assets* -** In October 2004 the Company entered into a definitive agreement for $5,000,000 of senior convertible notes, (see note 14). In connection with the agreement costs of approximately $646,000 were incurred which are being amortized over the 36-month term of the agreement or expensed when the notes are converted. In March 2006, the amortization of prepaid capital finance expense was accelerated to reflect the portion of the convertible notes that were converted during the year. The remaining balance of $217,000 will be amortized at approximately $11,400 per month over the remaining life of the notes.

In December 2004 the Company acquired Photonic Detectors, Inc. (see note 10). The Company recorded an intangible asset of $635,000, which represents the excess of cost over fair value of net assets. This intangible asset is associated with the value of the acquired customer list. The intangible asset is being amortized over a period of 60 months beginning January 2005. Monthly amortization is $10,000 per month. Each year the Company evaluates the present value of future cash flows associated with the list. Any impairment would be recognized when the expected future operating cash flows from such intangible assets is less than their carrying value.

In May 2005 the Company completed the acquisition of Picotronix, Inc., dba Picometrix, Inc. The Company recorded intangible assets of $14,920,000, which represents the excess of cost over fair value of net assets. These intangible assets are associated with the value of the acquired non-compete agreement, customer list, trademarks, R&D contacts, and technology/patents. These intangible assets are being amortized over their various estimated useful lives up to 15 years. Amortization is $116,200 per month.

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

	Weighted Average Lives	March 31, 2006 Carrying Value	Accumulated Amortization	Intangibles Net	March 27, 2005 Carrying Value	Accumulated Amortization	Intangibles Net
Non-Compete agreement	15	$ 130	$ 38	$ 92	$ 225	$ 194	$ 31
Customer list	3	825	170	655	635	32	603
Trademarks	15	2,270	135	2,135			

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		March 31, 2006			March 27, 2005		
	Weighted Average Lives	Carrying Value	Accumulated Amortization	Intangibles Net	Carrying Value	Accumulated Amortization	Intangibles Net
R&D contracts	15	1,380	82	1,298			
Patents		70	54	16	63	50	13
Patents pending		184		184			
Technology	10	10,950	975	9,975			
Total Intangibles	**11.4**	**$ 15,809**	**$ 1,454**	**$ 14,355**	**$ 923**	**$ 276**	**$ 647**

Balances for March 31, 2006 reflect intangible amounts not recognized in the March 27, 2005 values. Those prior year balances were included in Prepaid and Other current assets.

Amortization expense for the fiscal year ended March 31, 2006 was approximately $1,403,000. Patent amortization expense was approximately $3,000 in fiscal 2006, 2005 and 2004, respectively. The current patents held by the Company have remaining useful lives ranging from 2 years to 20 years, with a weighted average remaining useful life of 3.5 years

Assuming no impairment to the intangible value, future amortization expense for intangible assets and patents are as follows:

Intangible Assets		Patents	
2007	$ 1,522,000	2007	$ 4,100
2008	1,521,000	2008	2,400
2009	1,486,000	2009	1,400
2010	1,453,000	2010	900
2011	1,361,000	2011	900
2012 & after	6,812,000	2012 & after	6,100
Total	$ 14,155,000	Total	$ 15,800

Patent pending costs will be amortized beginning the month the patents are granted.

Impairment of Goodwill The excess of cost over the purchase price of acquired net assets is amortized on a straight-line basis over a 25-year period. In accordance with SFAS 142, *Goodwill and other Intangible Assets,* the Company ceased amortizing goodwill on April 1, 2002. 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. As a result of the Company s evaluation, goodwill recorded from the Texas Optoelectronics Inc. acquisition in 2003 of approximately $1.4 million was reduced $814,000 in Q4 FY06 based on the net present value of the estimated future cash flow as a result of the acquisition.

6. Foreign Sales

In fiscal 2006, 2005 and 2004, the Company had export sales of approximately $2.1 million, $2.5 million and $1.2 million, respectively, made primarily to customers in North America, Asia and Europe. All foreign sales are denominated in U.S. dollars. Sales to specific countries, stated as a percentage of total sales, consist of the following:

	2006	2005	2004
Australia	1%		
Canada		2%	
Japan		2%	
Spain		5%	

United Kingdom	4%	2%	4%
All other countries	4%	6%	6%
Total export sales	9%	17%	10%

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7. **Advertising Expense** Advertising costs are expensed as incurred. Advertising expense was approximately $133,000, $84,000 and $57,000 in fiscal 2006, 2005 and 2004, respectively.