ADVANCED PHOTONIX INC
Form 10-Q
February 08, 2010

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

FORM 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended December 25, 2009
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Commission file number 1-11056

ADVANCED PHOTONIX, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	33-0325826 (I.R.S. Employer Identification Number)

2925 Boardwalk, Ann Arbor, Michigan 48104
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (734) 864-5600

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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of February 3, 2010, there were 24,463,978 of Class A Common Stock, $.001 par value, and 31,691 shares of Class B Common Stock, $.001 par value outstanding.

Advanced Photonix, Inc.
Form 10-Q
For the Quarter Ended December 25, 2009

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PART I -- FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ADVANCED PHOTONIX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 25, 2009 (Unaudited)	March 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,007,000	$ 2,072,000
Restricted cash	500,000	500,000
Accounts receivable, net	2,505,000	3,284,000
Inventories, net	3,681,000	3,669,000
Prepaid expenses and other current assets	338,000	252,000
Total current assets	9,031,000	9,777,000
Equipment and leasehold improvements, net	3,568,000	4,322,000
Goodwill	4,579,000	4,579,000
Intangibles and patents, net	7,605,000	8,975,000
Other assets	110,000	388,000
Total Assets	$ 24,893,000	$ 28,041,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,030,000	$ 1,356,000
Accrued compensation	940,000	1,037,000
Accrued interest	624,000	513,000
Other accrued expenses	740,000	615,000
Current portion of long-term debt - related parties	450,000	1,401,000
Current portion of long-term debt - bank line of credit	1,394,000	--
Current portion of long-term debt - bank term loan	1,229,000	434,000
Current portion of long-term debt - MEDC	1,014,000	353,000
Total current liabilities	7,421,000	5,709,000
Long-term debt, less current portion - MEDC	1,210,000	1,871,000
Long-term debt, less current portion - bank line of credit	--	1,394,000
Long-term fair value warrant liability	172,000	--
Long-term debt, less current portion - related parties	951,000	--
Long-term debt, less current portion - bank term loan	--	1,121,000
Total liabilities	9,754,000	10,095,000
Commitments and contingencies		
Shareholders' equity:		
Class A redeemable convertible preferred stock, $.001 par value; 780,000 shares authorized; 40,000 shares outstanding	--	--
Class A Common Stock, $.001 par value, 100,000,000 authorized; December 25, 2009 – 24,463,978 shares issued and outstanding, March 31, 2009 – 24,089,726 shares issued and outstanding	24,000	24,000
Class B Common Stock, $.001 par value; 4,420,113 shares authorized; December 25, 2009 and March 31, 2009 - 31,691 issued and outstanding	--	--
Additional paid-in capital	50,100,000	52,400,000
Accumulated deficit	(34,985,000)	(34,478,000)
Total shareholders' equity	15,139,000	17,946,000
Total Liabilities and Shareholders' Equity	$ 24,893,000	$ 28,041,000

See notes to condensed consolidated financial statements.

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ADVANCED PHOTONIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 25, 2009	December 26, 2008	December 25, 2009	December 26, 2008
Sales, net	$ 4,588,000	$ 7,606,000	$ 15,947,000	$ 23,565,000
Cost of products sold	3,009,000	4,329,000	9,306,000	12,967,000
Gross profit	1,579,000	3,277,000	6,641,000	10,598,000
Operating expenses:				
Research, development and engineering	1,183,000	1,112,000	3,413,000	3,321,000
Sales and marketing	380,000	605,000	1,249,000	1,935,000
General and administrative	998,000	1,236,000	3,152,000	3,751,000
Amortization expense	518,000	516,000	1,552,000	1,561,000
Wafer fabrication relocation expenses	--	58,000	40,000	266,000
Total operating expenses	3,079,000	3,527,000	9,406,000	10,834,000
Income (loss) from operations	(1,500,000)	(250,000)	(2,765,000)	(236,000)
Other income (expense):				
Interest income	1,000	(3,000)	4,000	25,000
Interest expense	(66,000)	(84,000)	(202,000)	(248,000)
Interest expense, related parties	(15,000)	(22,000)	(44,000)	(77,000)
Change in fair value of warrant liability	174,000	--	121,000	--
Other income/(expense)	62,000	--	54,000	(2,000)
Net income (loss)	$ (1,344,000)	$ (359,000)	$ (2,832,000)	$ (538,000)
Basic and diluted loss per share	$ (0.05)	$ (0.01)	$ (0.12)	$ (0.02)
Weighted average common shares outstanding				
Basic and diluted	24,483,000	24,109,000	24,323,000	24,057,000

See notes to condensed consolidated financial statements.

ADVANCED PHOTONIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended December 25, 2009	December 26, 2008
OPERATING ACTIVITIES:		
Net loss	$ (2,832,000)	$ (538,000)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation	847,000	861,000
Amortization	1,552,000	1,561,000
Stock-based compensation expense	303,000	145,000
Change in fair value of warrant liability	(121,000)	--
Changes in operating assets and liabilities:		
Accounts receivable	779,000	(1,239,000)
Inventories	(12,000)	(101,000)
Prepaid expenses and other assets	192,000	(236,000)
Accounts payable and accrued expenses	(187,000)	1,391,000
Net cash provided by operating activities	521,000	1,844,000
INVESTING ACTIVITIES:		
Capital expenditures	(93,000)	(612,000)
Change in restricted cash	--	1,000,000
Patent expenditures	(182,000)	(129,000)
Net cash provided by (used in) investing activities	(275,000)	259,000
FINANCING ACTIVITIES:		
Payments on capital lease financing	--	(1,917,000)
Proceeds from bank term loan	--	1,736,000
Borrowings on line of credit	--	94,000
Payment on bank term loan	(326,000)	(73,000)
Payments on long-term debt – related parties	--	(450,000)
Proceeds from exercise of stock options	15,000	48,000
Net cash used in financing activities	(311,000)	(562,000)
Net increase (decrease) in cash and cash equivalents	(65,000)	1,541,000
Cash and cash equivalents at beginning of period	2,072,000	82,000
Cash and cash equivalents at end of period	$ 2,007,000	$ 1,623,000

Supplemental disclosure of cash flow information:	December 25, 2009	December 26, 2008
Cash paid for income taxes	$ --	$ 3,000
Cash paid for interest	$ 136,000	$ 211,000

See notes to condensed consolidated financial statements.

Advanced Photonix, Inc.
Notes to Condensed Consolidated Financial Statements
December 25, 2009

Note 1. Basis of Presentation

Business Description

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 customers from the initial concept and design phase of the product, through testing to full-scale production. The Company has two manufacturing facilities located in Camarillo, California and Ann Arbor, Michigan.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and the Company's wholly owned subsidiaries, Silicon Sensors Inc. ("SSI") and Picometrix, LLC ("Picometrix"). The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. All material inter-company accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. The Company evaluates subsequent events through the date the accompanying financial statements were issued, which was February 8, 2010. Operating results for the three-month and nine-month periods ended December 25, 2009 are not necessarily indicative of the results that may be expected for the balance of the fiscal year ending March 31, 2010.

These unaudited condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis and the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

Note 2. Recent Pronouncements and Accounting Changes

In August 2009, the FASB issued new guidance related to measuring certain liabilities at fair value which provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity is required to measure fair value utilizing one or more of the following techniques: (1) a valuation technique that uses quoted prices for identical or similar liabilities when traded as assets; or (2) another valuation technique that is consistent with the principles of existing guidance, such as a present value technique or market approach. The new guidance became effective for the Company during the current quarter and did not have a material impact on the Company's financial statements.

On July 1, 2009, the FASB issued FASB ASC 105 (Prior authoritative literature: SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement No. 162"), ("SFAS No. 168"). FASB ASC 105 replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" and establishes the "Accounting Standards Codification" (Codification) as the single official source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). All other non-grandfathered, non-SEC accounting literature not included in the Codification becomes non-authoritative. The ASC supersedes all existing, non-SEC accounting and reporting standards applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). FASB ASC 105 is effective for interim and annual periods ending after September 15, 2009. As the Codification does not change GAAP, the implementation did not have a material impact on the Company's financial statements.

In June 2008, the FASB ratified guidance that addresses how an entity should evaluate whether an instrument is indexed to its own stock. The guidance is effective for fiscal years (and interim periods) beginning after December 15, 2008. The guidance must be applied to outstanding instruments as of the beginning of the fiscal year in which the guidance is adopted and should be treated as a cumulative-effect adjustment to the opening balance of retained earnings. The Company adopted this provision on April 1, 2009. See Note 7 for a discussion on the impact that this adoption had on the Company's financial statements.

In April 2009, the FASB issued new guidance that enhances consistency in financial reporting by increasing the frequency of disclosures on fair value of financial instruments. The guidance requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance in the first quarter of FY 2010 is included in Note 10 to the condensed consolidated financial statements.

In May 2009, the FASB issued new guidance pertaining to subsequent events which is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This guidance is effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively. The Company has adopted this guidance effective with the Q1 2010 financial statements. The adoption of this guidance had no impact on our condensed consolidated financial statements.

During Q1 2010, the Company adopted various accounting standards related to fair value measurements, non-controlling interests, useful life of intangible assets, accounting for convertible debt instruments that may be settled in cash upon conversion, participating securities, and business combinations. The adoption of these new standards did not have a material effect on the Company's results of operations, financial position, or liquidity.

Note 3. Share-Based Compensation

The Company has five stock equity plans: The 1990 Incentive Stock Option and Non-Qualified Stock Option Plan, the 1991 Directors' Stock Option Plan (The Directors' Plan), the 1997 Employee Stock Option Plan, the 2000 Stock Option Plan and the 2007 Equity Incentive Plan. As of December 25, 2009, under all of our plans, there were 7,200,000 shares authorized for issuance, with 1,865,010 shares remaining available for future grant.

Options typically vest at the rate of 25% per year over four years and are exercisable up to ten years from the date of issuance. Options granted under the Directors' Plan typically vests at the rate of 50% per year over two years. Under these plans, the option exercise price equals the stock's market price on the date of grant. Options and restricted stock awards may be granted to employees, officers, directors and consultants. Under the 2007 Equity Incentive Plan, stock options typically vest within four years from grant date and restricted stock awards typically vest within one year.

Restricted shares are granted with a per share or unit purchase price at 100% of fair market value on the date of grant. The shares of restricted stock vest after either three, six or twelve months, and are not transferable for one year after the grant date. Stock-based compensation will be recognized over the expected vesting period of the stock options and restricted stock.

During the three month periods ended December 25, 2009 and December 26, 2008, there were no restricted shares granted by the Company. There were no stock options granted during the three month periods ended December 25, 2009 and December 26, 2008. For the nine-month period ended December 25, 2009; there were 78,000 stock options granted and 344,000 restricted shares granted by the Company. For the nine-month period ended December 26, 2008, the Company granted 292,000 stock options and 56,000 restricted shares.

The following table summarizes information regarding options outstanding and options exercisable at December 26, 2008 and December 25, 2009 and the changes during the periods then ended:

	Number of Options Outstanding (000's)	Weighted Average Exercise Price per Share	Number of Shares Exercisable (000's)	Weighted Average Exercise Price per Share
Balance of March 31, 2008	2,619	$ 1.92	2,198	$ 1.87
Granted	264	$ 1.50		
Exercised	--	--		
Expired	(38)	$ 1.25		
Balance of June 27, 2008	2,845	$ 1.89	2,312	$ 1.90
Granted	28	$ 1.76		
Exercised	(42)	$ 0.88		
Expired	(21)	$ 1.75		
Balance of September 26, 2008	2,810	$ 1.91	2,343	$ 1.93
Granted	--	--		
Exercised	(14)	$ 0.80		
Expired	--	--		
Balance of December 26, 2008	2,796	$ 1.91	2,384	$ 1.93

	Number of Options Outstanding (000's)	Weighted Average Exercise Price per Share	Number of Shares Exercisable (000's)	Weighted Average Exercise Price per Share
Balance of March 31, 2009	2,746	$ 1.92	2,374	$ 1.93
Granted	78	$ 0.63		
Exercised	--	--		
Expired	(20)	$ 1.80		
Balance of June 26, 2009	2,804	$ 1.92	2,493	$ 1.92
Granted	--	--		
Exercised	--	--		
Expired	(10)	$ 2.12		
Balance of September 25, 2009	2,794	$ 1.88	2,547	$ 1.94
Granted	--	--		
Exercised	(30)	$ 0.52		
Expired	(78)	$ 1.07		
Balance of December 25, 2009	2,686	$ 1.92	2,474	$ 1.96

Information regarding stock options outstanding as of December 25, 2009 is as follows:

Price Range	Shares (in 000's)	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
Options Outstanding			
$0.50 - $1.25	754	$ 0.75	6.3
$1.50 - $2.50	1,226	$ 1.90	5.6
$2.68 - $5.34	706	$ 3.19	4.0
Options Exercisable			
$0.50 - $1.25	712	$ 0.75	3.8
$1.50 - $2.50	1,056	$ 1.96	5.3
$2.68 - $5.34	706	$ 3.19	4.0

The intrinsic value of options exercised in quarter ending December 25, 2009 was zero since no options were exercised and approximately $15,100 in quarter ending December 26, 2008. The intrinsic value of options exercised for the nine months ended December 25, 2009 and December 26, 2008 was approximately $7,200 and $47,100, respectively.

During FY 2009 and FY 2010, restricted shares were issued to certain individuals. The restricted share transactions are summarized below:

	Shares (in 000's)	Weighted Average Grant Date Fair Value per share
Unvested, March 31, 2008	--	--
Granted	29	$ 1.50
Vested	--	--
Expired	--	--
Unvested, June 27, 2008	29	$ 1.50
Granted	27	$ 1.87
Vested	--	--
Expired	--	--
Unvested, September 26, 2008	56	$ 1.68
Granted	--	--
Vested	--	--
Expired	--	--
Unvested, December 26, 2008	56	$ 1.68

	Shares (in 000's)	Weighted Average Grant Date Fair Value per share
Unvested, March 31, 2009	29	$ 1.50
Granted	195	$ 0.65
Vested	(29)	$ 1.50
Expired	--	--
Unvested, June 26, 2009	195	$ 0.65
Granted	149	$ 0.67
Vested	(160)	$ 0.65
Expired	--	--
Unvested, September 25, 2009	184	$ 0.67
Granted	--	
Vested	(10)	$ 0.66
Expired	--	
Unvested, December 25, 2009	174	$ 0.66

The Company estimates the fair value of stock-based awards utilizing the Black-Scholes pricing model for stock options and the intrinsic value for restricted stock. The fair value of the awards is amortized as compensation expense on a straight-line basis over the requisite service period of the award, which is generally the vesting period. The Black-Scholes fair value calculations involve significant judgments, assumptions, estimates and complexities that impact the amount of compensation expense to be recorded in current and future periods. The factors include:

- The time period that stock-based awards are expected to remain outstanding has been determined based on the average of the original award period and the remaining vesting period in accordance with the SEC's short-cut approach pursuant to SAB No. 107, "Disclosure About Fair Value of Financial Statements". The expected term assumption for awards issued during the three monthperiods ended December 25, 2009 and December 26, 2008 was 6.3 years. As additional evidence develops from the employee's stock trading history, the expected term assumption will be refined to capture the relevant trends.

- The future volatility of the Company's stock has been estimated based on the weekly stock pricefrom the acquisition date of Picometrix LLC (May 2, 2005) to the date of the latest stock grant. The expected volatility assumption for awards issued during the three month periods ending December 25, 2009 and December 26, 2008 averaged 70% and 41%, respectively. As additional evidence develops, the future volatility estimate will be refined to capture the relevant trends.

- A dividend yield of zero has been assumed for awards issued during the three month periods ended December 25, 2009 and December 26, 2008, based on the Company's actual pastexperience and the fact that Company does not anticipate paying a dividend on its shares in the near future.

- The Company has based its risk-free interest rate assumption for awards issued during the three month periods ended December 25, 2009 and December 26, 2008 on the implied yield available on U.S. Treasury issues with an equivalent expected term, which averaged 2.2% and 3.5% during the respective periods.

- The forfeiture rate, for awards issued during the three month periods ended December 25, 2009 and December 26, 2008, were approximately 19.0% and 18.7%, respectively, and was based on the Company's actual historical forfeiture trend.

The Company recorded $78,000 and $45,000 of stock-based compensation expense (as classified in table below) in our consolidated statements of operations for the three month periods ended December 25, 2009 and December 26, 2008, respectively, and $303,000 and $145,000 for the nine-month periods ended December 25, 2009 and December 26, 2008, respectively.

	Three months ended		Nine months ended	
	December 25, 2009	December 26, 2008	December 25, 2009	December 26, 2008
Cost of Products Sold	$ 3,000	$ 4,000	$ 12,000	$ 9,000
Research and Development expense	9,000	10,000	61,000	35,000
General and Administrative expense	63,000	25,000	217,000	81,000
Sales and Marketing expense	3,000	6,000	13,000	20,000
Total Stock Based Compensation	$78,000	$ 45,000	$303,000	$ 145,000

At December 25, 2009, the total stock-based compensation expense related to unvested stock options and restricted shares granted to employees under the Company's stock option plans but not yet recognized was approximately $154,000. This expense will be amortized on a straight-line basis over a weighted-average period of approximately 1.6 years and will be adjusted for subsequent changes in estimated forfeitures.

Note 4 Credit Risk

Pervasiveness of Estimates and Risk - The preparation of condensed 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. 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 four financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 25, 2009, 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. As of December 25, 2009, cash deposits held at financial institutions in excess of FDIC insured amounts of $250,000 were approximately $1.7 million. As of March 31, 2009, cash deposits held at financial institutions in excess of FDIC insured amounts of $250,000 were approximately $2.0 million.

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. At December 25, 2009, one (1) customer comprised 10% or more of accounts receivable. As of March 31, 2009, one customer comprised 10% or more of accounts receivable.

Note 5. Detail of Certain Asset Accounts

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.

Compensating Cash Balance - During FY 2009, the Company established a Credit Facility with The PrivateBank and Trust Company with a minimum compensating balance requirement of $500,000. This amount has been separately disclosed on the accompanying balance sheets as restricted cash.

Accounts Receivable - Receivables are stated at amounts estimated by management to be the net realizable value. The allowance for doubtful accounts 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.

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. Any unanticipated change in the customers’ credit worthiness or other matters affecting the collectability of amounts due from such customers could have a material effect on the results of operations in the period in which such changes or events occur. The allowance for doubtful accounts on December 25, 2009 was $59,000 and on March 31, 2009 was $62,000.

Inventories - Inventories, which include material, labor and manufacturing overhead, are stated at the lower of standard cost (which approximates the first in, first out method) or market. Inventories consist of the following at December 25, 2009 and March 31, 2009:

	December 25, 2009	March 31, 2009
Raw material	$ 3,572,000	$ 3,316,000
Work-in-process	737,000	808,000
Finished products	444,000	392,000
Total inventories	4,753,000	4,516,000
Less reserve	(1,072,000)	(847,000)
Inventories, net	$ 3,681,000	$ 3,669,000

Slow moving and obsolete inventories are reviewed throughout the year. To calculate a reserve for obsolescence, the Company begins with a review of its 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. Items identified as useable in the near future are then excluded from slow moving and obsolete inventory and the remaining amount is then reserved as slow moving and obsolete. Additionally, non-cancelable open purchase orders for parts the Company is 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.

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

	Weighted Average Lives in Years	December 25, 2009				March 31, 2009		
		Amortization Method	Carrying Value	Accumulated Amortization	Intangibles Net	Carrying Value	Accumulated Amortization	Intangibles Net
Non-Compete	3	Cash Flow	$ 130	$ 130	$ --	$ 130	$	