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ADVANCED PHOTONIX INC
Form 10QSB
August 13, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 29, 2003

OR

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

Commission file no. 1-11056

ADVANCED PHOTONIX, INC.

Incorporated pursuant to the Laws of Delaware

IRS Employer Identification No. 33-0325826

1240 Avenida Acaso, Camarillo, CA 93012

(805) 987-0146

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 No

On August 8, 2003, 13,424,759 shares of Class A Common Stock, \$.001 par value, and 31,691 shares of Class B Common Stock, \$.001 par value, were outstanding.

ADVANCED PHOTONIX, INC.

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PART I FINANCIAL INFORMATION

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ADVANCED PHOTONIX, INC.

CONSOLIDATED BALANCE SHEET
AT JUNE 29, 2003
(UNAUDITED)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	
Short term investments		1,
Accounts receivable, less allowance of \$74,000		2,
Inventories		2,
Prepaid expenses and other current assets		-----
Total Current Assets		7,

EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost		4,
Less accumulated depreciation and amortization		(3,

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Equipment and Leasehold Improvements, net	1,

OTHER ASSETS	
Goodwill, net of accumulated amortization of \$353,000	2,
Patents, net of accumulated amortization of \$45,000	
Non-Compete Agreement, net of accumulated amortization of \$62,000	
Other	

Total Other Assets	2,

TOTAL ASSETS	\$ 11,
	=====

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ADVANCED PHOTONIX, INC.

CONSOLIDATED BALANCE SHEET - Continued
 AT JUNE 29, 2003
 (UNAUDITED)

LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Line of credit	\$ 1,
Accounts payable	
Accrued salaries, wages and benefits	
Current portion of capital lease payable	
Note payable	
Other accrued expenses	

Total Current Liabilities	2,

Capital lease payable, net of current portion	

COMMITMENTS AND CONTINGENCIES	
Class A redeemable convertible preferred stock, \$.001 par value; 780,000 shares authorized; 40,000 shares issued and outstanding	

SHAREHOLDERS' EQUITY	
Preferred stock, \$.001 par value; 10,000,000 shares authorized; 780,000 shares designated Class A redeemable convertible; no shares issued and outstanding	
Class A common stock, \$.001 par value; 50,000,000 shares authorized; 13,380,092 shares issued and outstanding	
Class B common stock, \$.001 par value; 4,420,113 shares authorized; 31,691 shares issued and outstanding	

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Additional paid-in capital	27,
Accumulated Deficit	(18,

Total Shareholders' Equity	8,

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 11,
	=====

See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

For the three month periods ended	June 29, 2003	Jun
-----	-----	-----
SALES	\$ 2,647,000	\$
Cost of Goods Sold	1,774,000	
	-----	-----
GROSS PROFIT	873,000	
Research and development expenses	78,000	
Sales and marketing expenses	241,000	
General and administrative expenses	443,000	
	-----	-----
INCOME (LOSS) FROM OPERATIONS	111,000	
	-----	-----
OTHER INCOME (EXPENSE)		
Interest income	5,000	
Interest expense	(9,000)	
Other, net	6,000	
	-----	-----
Other Income, net	2,000	
	-----	-----
NET INCOME (LOSS)	\$ 113,000	(\$
	=====	=====
Basic and Diluted Earnings Per Share	\$ 0.01	
Weighted Average Shares Outstanding	13,406,000	

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See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the three month periods ended	June 29, 2003	Jun
-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ 113,000	\$
Adjustments to reconcile net income to net cash provided by (used by) operating activities:		
Depreciation	75,000	
Amortization	20,000	
Changes in assets and liabilities:		
Short-term investments	(300,000)	
Accounts receivable	81,000	
Inventories	(119,000)	
Prepaid expenses and other current assets	62,000	
Other assets	(11,000)	
Accounts payable and accrued expenses	(226,000)	
	-----	-----
Net cash used by operating activities	(305,000)	-----
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(83,000)	
	-----	-----
Net cash used by investing activities	(83,000)	-----
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	9,000	
	-----	-----
Net cash provided by financing activities	9,000	-----
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(379,000)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	902,000	
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 523,000	\$
	=====	=====

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See notes to consolidated financial statements.

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ADVANCED PHOTONIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 29, 2003
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Advanced Photonix, Inc. ("the Company") and the Company's wholly owned subsidiaries, Silicon Sensors, Inc. ("SSI") and Texas Optoelectronics, Inc. ("TOI") (See Note 2). These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X and Regulation S-B. All significant intercompany accounts and transactions have been eliminated in consolidation. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included. Operating results for the three month period ended June 29, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending March 28, 2004. For further information, refer to the financial statements and notes thereto included in the Advanced Photonix, Inc. Annual Report on Form 10-KSB for the fiscal year ended March 30, 2003.

NOTE 2 - ACQUISITION

On August 21, 2002, SSI, a newly formed wholly owned subsidiary of API purchased substantially all of the assets and selected liabilities of Silicon Sensors LLC, a closely held manufacturer of opto-electronic semiconductor based components located in Dodgeville, Wisconsin. The purchase price was \$1,718,675 in cash plus the assumption of the Seller's trade accounts payable and accrued liabilities, amounting to approx. \$282,000. The Company incurred \$79,000 of expenses in connection with this acquisition. In addition, the Company entered into a 3 year \$225,000 non-compete agreement with the majority member of Silicon Sensors, LLC and is recording monthly amortization expense of \$6,250.

On January 17, 2003, the Company purchased all of the issued and outstanding shares of common stock of TOI, a privately owned custom manufacturer of opto-electric components and assemblies. The purchase price was 1,059,110 shares of API Class A Common Stock (issued at \$0.92 per share) and repayment of a debt of TOI in the amount of \$1,200,000 representing principal and interest.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Income (Loss) Per Share: Net income (loss) per share is based on the weighted average number of common shares outstanding. Such weighted average shares were approximately 13,406,000 at June 29, 2003 and 12,247,000 at June 30, 2002. Net income (loss) per share calculations are in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" (SFAS 128). Accordingly, "basic" net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding for the year. The impact of Statement 128 on the calculation of earnings per share is as follows:

BASIC -----	Three Months Ended June 29, 2003 -----	Three Months Ended June 30, 2002 -----
Average Shares Outstanding	13,406,000	12,247,000
Net Income (Loss)	113,000	(23,000)
Basic Income (Loss) Per Share	\$ 0.01	(\$ 0.00)
DILUTED -----		
Average Shares Outstanding	13,406,000	12,247,000
Net Effect of Dilutive Stock Options based on the treasury stock method using average market price	156,900	236,800
Total Shares	13,562,900	12,483,800
Net Income (Loss)	113,000	(23,000)
Diluted Earnings Per Share	anti-dilutive	anti-dilutive
Average Market Price of Common Stock	\$ 0.92	\$ 1.17
Ending Market Price of Common Stock	\$ 0.90	\$ 1.00

Stock options granted to Company employees, directors, and former owners were excluded from the calculation of earnings per share in the financial statements because they were either anti-dilutive or immaterial for the periods reported:

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NOTE 3 - Continued

Three Months Ended June 29, 2003		Three Months Ended June 30, 2002	
No. of Shares Underlying Options	Exercise Price Per Share	No. of Shares Underlying Options	Exercise Price Per Share
16,000	0.5000	12,000	0.5000
56,000	0.5630	130,000	0.5630
45,000	0.6100	-	0.6100
500	0.6250	500	0.6250
18,000	0.6500	-	0.6500
226,668	0.6700	-	0.6700
5,000	0.6875	4,000	0.6875
56,000	0.7500	130,000	0.7500
238,000	0.8000	266,006	0.8000
76,250	0.8600	75,000	0.8600
-	1.0000	75,000	1.0000
14,500	1.1875	13,900	1.1875
64,300	1.2500	78,800	1.2500
-	1.5000	4,000	1.5000
4,000	1.6250	4,000	1.6250
88,000	1.8750	66,000	1.8750
30,500	2.5000	35,500	2.5000
-	3.0000	8,000	3.0000
1,000	3.0940	1,000	3.0940
350,000	3.1875	400,000	3.1875
50,000	5.3440	50,000	5.3440
1,339,718		1,353,706	

Inventories: Inventories consist of the following:

	June 29, 2003
Raw materials	\$ 2,635,000
Work in progress	655,000
Finished products	268,000
Total inventories	\$ 3,558,000
Less reserve	(812,000)
Inventories, net	\$ 2,746,000

NOTE 4 - NEW ACCOUNTING PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standard ("SFAS") 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies EITF Issue 94-3. SFAS 146 is effective for exit and disposal activities that are initiated after December 31, 2002 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, in contrast to the date of an entity's commitment to an exit plan, as required by EITF Issue 94-3. The Company adopted the provisions of SFAS 146 on January 1, 2003.

In December 2002, the FASB issued SFAS 148 "Accounting for Stock-Based Compensation--Transition and Disclosure", an amendment of FASB Statement No. 123 "Accounting for Stock-Based Compensation" This Statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted SFAS 148 on January 1, 2003.

In May 2003 the FASB issued SFAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer of debt or equity classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003.

In January 2003 the FASB issued Interpretation 46 "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation requires a Company to consolidate the financial statements of a "Variable Interest Entity" ("VIE"), sometimes also known as a "special purpose entity", even if the entity does not hold a majority equity interest in the VIE. The Interpretation requires that if a business enterprise has a "controlling financial interest" in a VIE, the assets, liabilities, and results of the activities of the VIE should be included in consolidated financial statements with those of the business enterprise, even if it holds a minority equity position. This Interpretation was effective immediately for all VIE's created after January 31, 2003; for the first fiscal year or interim period beginning after June 15, 2003 for VIE's in which a Company holds a variable interest that it acquired before February 1, 2003.

The adoption of these pronouncements will not have a material effect on the Company's financial position, results from operations or cash flows.

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Item 2. Management's Discussion and Analysis

Application of Critical Accounting Policies

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

Revenue Recognition

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

Impairment of Long-Lived Assets

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

Deferred Tax Asset Valuation Allowance

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

Inventories

Our inventories are stated at standard cost (which approximates the first-in, first-out method) or market. Slow moving and obsolete inventories are analyzed quarterly. To calculate a reserve for obsolescence, we compare the current on-hand quantities with both the projected usages for a two-year period and the actual usage over the past 12 months. On-hand quantities greater than projected usage are calculated at the standard unit cost. The production, engineering and purchasing departments review the initial list of slow-moving and obsolete items to identify items that have alternative uses in new or existing products. These items are then excluded from the analysis. The remaining amount of slow-moving

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and obsolete inventory is then reserved for. Additionally, non-cancelable open purchase orders for parts we are obligated to purchase where demand has been reduced may be reserved. Reserves for open purchase orders where the market price is lower than the purchase order price are also established.

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Accounts Receivable and Allowance for Doubtful Accounts

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

RESULTS OF OPERATIONS

NET PRODUCT SALES

Sales for the first quarter of fiscal year 2004 ("Q1 04") were \$2,647,000, an increase of \$1,099,000 or 71% from sales of \$1,548,000 for the first quarter of fiscal year 2003 ("Q1 03"). The increase in sales was primarily due to the Company's acquisitions during the past year and was reflected in three of our principal market segments: industrial sensing, military/aerospace, and medical. Sales to the industrial sensing markets, which represent 43% of total sales for the quarter, increased by 45% over the same quarter in the prior year. Sales to customers in the military/aerospace markets, which represent 33% of total sales for the quarter, increased 68% over the prior year. Similarly, sales to the medical markets increased 144% over Q1 03 and represent 15% of total sales for the quarter. While we continue to expect sales to increase by approximately 40% in fiscal 2004 as compared to fiscal 2003, the sales may vary significantly on a quarter to quarter basis due to changes in customer delivery and production schedules.

COSTS AND EXPENSES

Cost of goods sold increased by \$858,000 (94%) in Q1 04 compared to Q1 03, due in large part to increased product sales. As a percentage of net sales, cost of goods sold increased by 8 percentage points to 67% as compared to 59% in Q1 03. Likewise, gross profit margin on net sales decreased 8 percentage points to 33% as compared to 41% in Q1 03. The decrease in gross margin is primarily attributable to increased labor and fixed overhead costs resulting from the operation of multiple manufacturing facilities. As the Company completed the closing of the Garland, Texas facility at mid-quarter, the results for Q1 04 include overhead expenses for both the Camarillo, California and Dodgeville, Wisconsin facilities for the full quarter as well as expenses associated with the Garland facility for a portion of the quarter. Conversely, the results for Q1 03 reflect only one manufacturing facility. The current gross margin has improved over what was realized during the latter portion of fiscal 2003 and the Company believes the current gross margin percentage is indicative of what can be expected during the remainder of the year and will improve slightly as revenue levels increase, thereby facilitating the absorption of more fixed

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expenses.

Research and development ("R&D") costs decreased by \$64,000 (45%) to \$78,000 in Q1 04 as compared to Q1 03. The decrease in R&D costs for the quarter is primarily due to an internal restructuring of the R&D department, with a focus placed on those projects which offer a higher potential toward commercialization. During the remainder of the fiscal year, the Company expects to see further decreases in R&D expenditures as we plan to continue the shifting of valuable engineering resources toward the support of our custom optoelectronic projects in target markets. However, the possibility exists that R&D costs may fluctuate slightly or even increase, should the level of activity associated with new product development projects or customer-requested development contracts increase significantly.

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Marketing and sales expenses increased slightly, by \$7,000 (3%) to \$241,000 in Q1 04 as compared to Q1 03. As a percentage of sales, marketing and sales expenses have decreased 6 percentage points to 9% in Q1 04, as compared to 15% for Q1 03. Thus, as the Company experienced some increases in marketing and sales expenses due to the absorption of subsidiary expenses, we have been able to more than offset those increases by savings realized through a consolidation of the marketing and sales department and a coordination of efforts between the two facilities. Excluding any unforeseen events, the Company expects that marketing and sales expenses for the remainder of fiscal 2004 will increase only slightly over the expenses realized in 2003, primarily due to increased commissions payable on increased sales. As a percentage of net sales, marketing and sales expenses are expected to remain at approximately 9% throughout the current fiscal year.

General and administrative expenses increased by \$136,000 (44%) to \$443,000 in Q1 04 as compared to \$307,000 in Q1 03. The increase in general and administrative expenses is primarily due to increased expenses resulting from the Company's recent acquisitions, which occurred during the second and fourth quarters of fiscal year 2003. Total general and administrative expenses associated with the new subsidiaries were \$156,000, which were partially offset by a \$20,000 reduction in expenses for various other general and administrative costs. As with sales and marketing expenses, the Company has achieved general and administrative savings through consolidation and coordination of its subsidiaries and, expressed as a percentage of net sales, general and administrative expenses decreased to 17% in Q1 04 as compared to 20% in Q1 03. We continue to expect that the level of expenditures for the remainder of the year will approximate the amounts realized in fiscal 2003 and that general and administrative expenses will continue to decline as a percentage of sales.

Despite the decrease in gross margin, increased sales and efficiencies realized in selling, general and administrative expenses resulted in net income reported for Q1 04 of \$113,000 as compared to a net loss of (\$23,000) in Q1 03.

FINANCIAL CONDITION

At June 29, 2003, the Company had cash, cash equivalents and short term investments of \$2.2 million, working capital of \$4.9 million, and an accumulated deficit of \$18.7 million. The Company's cash and cash equivalents decreased by \$379,000 during the three months ended June 29, 2003. Cash used by operating expenditures totaled \$305,000, including \$300,000 transferred from operating cash to short term investments. Other operating expenditures were impacted by cash outlays used to purchase inventory and reduce accounts payable, which were

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partially offset by cash collected from accounts receivable and a reduction in prepaid expenses. \$9,000 was obtained through the exercise of stock options.

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Cash of \$83,000 was used for capital equipment, compared to \$20,000 during the same period of the prior year. \$60,000 was used to purchase additional manufacturing equipment for the Dodgeville, Wisconsin facility and \$19,000 was used for computer hardware upgrades. The remaining capital expenditures during the current quarter were due to minor equipment upgrades and/or replacements. The Company anticipates additional cash outlays for capital items will be required during the remainder of fiscal 2004, as we have identified other necessary production equipment upgrades and also plan to complete the installation of a wide area network (WAN) communication system and subsequent conversion of the Dodgeville database and enterprise resource planning (ERP) system.

The Company is exposed to interest rate risk for marketable securities. Due to continually declining interest rates available to the Company pursuant to its investment policy, the Company was able to achieve the best yields on liquid money market and equity fund accounts and thus transferred the majority of its available cash reserves from longer term investment instruments to such accounts during the past year. At June 29, 2003, the Company held \$1.7 million in a highly liquid equity fund account which carries an average interest rate of 1.2%. During 2004, the Company will continue to monitor available interest rates and will attempt to utilize the best possible avenues of investment for its excess liquid assets.

FORWARD LOOKING STATEMENTS

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

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PART II OTHER INFORMATION

Items 1 - 5
None

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits

- 31.1 Certification of the Registrant's Chairman, Chief Executive Officer, and Director pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Registrant's Chief Financial Officer and Secretary pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.3 Certification of the Registrant's President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company filed form 8-K/A on April 2, 2003, to report the proforma financial information relating to its acquisition of Texas Optoelectronics, Inc. This report amended Item 7 of the report on Form 8-K filed with the Securities and Exchange Commission on January 31, 2003.

The Company filed form 8-K on June 26, 2003 to report that it had issued a press release dated June 25, 2003 announcing financial results for the quarter and year ended March 30, 2003.

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SIGNATURES

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

Advanced Photonix, Inc.

(Registrant)

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Date: August 13, 2003

/s/ Richard Kurtz

Richard Kurtz
Chairman, Chief Executive Officer
and Director

/s/ Paul Ludwig

Paul Ludwig
President

/s/ Susan Schmidt

Susan Schmidt
Chief Financial Officer
and Secretary