

ADVANCED PHOTONIX INC

Form 424B3

October 17, 2005

**Table of Contents****PROSPECTUS**

Filed Pursuant to  
Rule 424(b)(3)  
Registration No. 333-128706

**835,696 Shares of Class A Common Stock**

This prospectus relates to the sale of up to 835,696 shares of our Class A common stock by the selling stockholders identified in this prospectus or their transferees from time to time. Of the Class A common stock offered hereby, (i) 472,679 shares of Class A common stock are issuable upon conversion of \$1.0 million aggregate principal amount of additional convertible notes that were issued upon the exercise of a portion of the outstanding additional investment rights, and (ii) 170,164 shares of Class A common stock are issuable upon exercise of warrants which were purchased upon exercise of a portion of the outstanding additional investment rights. We are not offering or selling any of our Class A common stock pursuant to this prospectus. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. We will not be paying any underwriting discounts or commissions in this offering.

The selling stockholders identified in this prospectus, or their pledgees, donees, permitted transferees or other successors-in-interest, may offer the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices.

We do not know when or in what amount a selling stockholder may offer shares for sale, including whether a selling stockholder will sell any or all of the shares offered by this prospectus.

Our Class A common stock is traded on the American Stock Exchange under the symbol AAPI.@ On September 23, 2005, the last sale price of a share of our Class A common stock as reported on the American Stock Exchange was \$3.11.

These securities involve a high degree of risk. See **Risk Factors** beginning on page 5.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is October 17, 2005

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**About This Prospectus**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, utilizing a shelf registration process or continuous offering process. Under this shelf registration process, the selling stockholders may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities that may be offered by the selling stockholders. Each time a selling stockholder sells securities, the selling stockholder is required to provide you with this prospectus and, in certain cases, a prospectus supplement containing specific information about the selling

stockholder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under [Where You Can Find More Information](#).

As used in this prospectus, the terms [we](#), [our](#), and [us](#) may, depending on the context, refer to Advanced Photonix, Inc., including its consolidated subsidiaries.

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**Cautionary Statements Regarding Forward Looking Statements**

We believe it is important to communicate our expectations to investors. However, there may be events in the future that we are not able to predict accurately or that we do not fully control that could cause actual results to differ materially from those expressed or implied. This prospectus and the documents incorporated by reference in this prospectus may contain forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain factors, risks and uncertainties that may cause actual results, events and performances to differ materially from those referred to in such statements. These statements address operating performance, events or developments that we expect or anticipate will occur in the future, such as projections about our future results of operations or our financial condition, research, development and commercialization of our product candidates, anticipated trends in our business, manufacture of sufficient and acceptable quantities of our proposed products and our strategies to grow the company. The forward looking statements are based on information available to us on the date hereof, and we assume no obligation to update any such forward looking statements.

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**The Company**

*This summary contains basic information about us and the sale by the selling stockholders of our Class A common stock. Because it is only a summary, it does not contain all of the information that you should consider before purchasing our Class A common stock. You should read this entire prospectus, including the information set forth under Risk Factors and the information incorporated by reference in this prospectus.*

**Our Business**

We are a leading supplier of custom opto-electronic solutions and Terahertz sensors and instrumentation, serving a variety of global Original Equipment Manufacturer (OEM) markets. Our optoelectronic solutions are based on our patented high speed optical receivers in III-V materials in Avalanche Photodiode technology (APD) and PIN (positive-intrinsic-negative) configurations and silicon Large Area Avalanche Photodiode (LAAPD), PIN photodiode and FILTRODE® detectors. Our newly emerging Terahertz sensor product line is targeted to the Non-Destructive Testing (including baggage/cargo scanning) and Quality Control 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.

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 Defense/Homeland Security, Medical, Telecom, Test & Measurement, Industrial/Commercial and the Automotive Industries.

**Technology & Manufacturing Capabilities**

Our basic technologies and manufacturing capabilities include the following:

Semiconductor Design

MBE Growth, and Micro-fabrication of high-speed GaAs and InP based semiconductor devices,

Optoelectronic Micro-packaging of semiconductor devices combining high-speed electronics and fiber optics,

Vapor Deposition and Ion Implantation for Silicon based PIN photo-detectors,

Hybrid Assembly and Electronic Manufacturing Services,

Terahertz Sensors and Generators, and

Femto Second Lasers

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**Core Products**

The core product technologies used in the majority of our products are optoelectronic photodiodes. Photodiodes sense light of varying wavelengths and intensity and convert that light into electrical signals. We manufacture photodiodes of varying complexity, from basic PIN photodiodes to the more sophisticated avalanche photodiode. 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

Terahertz Sensors

Large Area Avalanche Photodiodes (LAAPD)

FILTRODE® patented technology integrating optical filters directly on photodiode chips

Avalanche Photodiodes (APD) discrete, with and without thermoelectric coolers, and with integrated modules in Silicon and III-V materials

Positively Intrinsic Negative (PIN) photodiodes in Silicon and III-V materials

**Terahertz Technology**

The newest technology that we have been pursuing is Terahertz (T-Ray ). We believe that Terahertz is the last unexplored frontier of the EM Spectrum. Recent advances in femtosecond lasers and semiconductor devices have enabled the development of practical T-Ray instrumentation. Terahertz properties can be used to look through materials and create high spatial resolution and yields precise depth resolution. Market applications include quality control through non-destructive testing and spectroscopy, medical imaging and other scientific applications, and security screening applications for inspection of letters, packages, baggage and people.

We have had significant Terahertz technology and product development since 1997, resulting in over 100 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:

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Military:

Space

Industrial/Non-Destructive Testing:

Manufacturing

Instrumentation

Display

Medical:

Diagnostic & Monitoring

Ophthalmic Equipment

Medical Imaging

Telecommunications:

Test and Measurement

Telecom Equipment

Wireless Communications

Homeland Security:

Baggage/Cargo Scanning

Passenger Screening

We were incorporated under the laws of the State of Delaware in June 1988. Our principal executive offices are located at 1240 Avenida Acaso, Camarillo, California 93012, and our telephone number is (805) 987-0146.

**The Private Placement**

On October 12, 2004, we completed a private placement and issued an aggregate of \$5.0 million principal amount of our convertible notes, and warrants to purchase up to an aggregate of 850,822 additional shares of our Class A common stock at \$2.1156 per share exercisable during the five year period commencing March 12, 2005. The convertible notes will mature on September 30, 2007, bear interest at a rate of the prime rate plus 1.0% and are convertible into shares of our Class A common stock at the investors' option at an initial conversion price of \$1.9393 per share, subject to adjustment. The convertible notes are secured by a lien on all of our assets. The lien is subordinated to the lien securing our existing bank line of credit. The convertible notes are guaranteed by all of our subsidiaries.

We also granted the purchasers of the convertible notes additional investment rights to purchase (i) up to an aggregate of \$5.0 million principal amount of additional convertible notes with an initial conversion price of \$2.1156 per share and (ii) warrants to purchase 850,822 shares of Class A common stock at an exercise price of \$2.1156. These additional investment rights expire on April 5, 2006. We agreed with the purchasers of these securities to register these

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securities for public resale. This prospectus has been prepared, and the registration statement of which this prospectus is a part has been filed with the SEC, in order to satisfy our obligations to the purchasers of these securities.

On March 9, 2005, we entered into a letter agreement (referred to in this prospectus as the amendment ) amending certain of the definitive agreements we entered into in connection with the private placement. The amendment, among other things, amended the warrants issued, and the additional warrants to be issued, in the private placement to the investors to reduce the exercise price from \$2.1156 per share of our Class A common stock to \$1.78 per share. In addition, the notes issued in connection with the private placement were amended to provide that the interest rate shall not be less than 6.5% at any time.

On September 8, 2005, the holders of \$1,000,000 of the \$5,000,000 of additional investment rights granted in October 2004 exercised these rights. The remaining \$4,000,000 of additional investment rights remain outstanding and exercisable by the holders. In connection with the exercise, we issued an additional \$1,000,000 aggregate principal amount of additional convertible notes. All terms of these notes are identical to the currently outstanding \$5,000,000 aggregate principal amount of our initial convertible notes. In connection with this exercise of the additional investment right, we issued year warrants to purchase an aggregate of 170,164 shares of our common stock at an exercise price of \$1.78 per share exercisable during the five year period commencing September 8, 2005.

Accordingly, this prospectus covers the resale by the selling stockholders of shares of our Class A common stock issued upon conversion of the selling stockholders additional convertible notes and the exercise of the additional warrants issued to them upon the exercise of the portion of the additional investment rights. This prospectus does not cover the shares of our Class A common stock issuable upon conversion of the initial notes and exercise of the initial warrants by the investors in the October 2004 private placement or the shares of Class A common stock issuable upon conversion of the additional convertible notes and exercise of the additional warrants which may be acquired by the other investors in the private placement upon exercise of their additional investment rights.

Investing in our securities involves risks. You should carefully consider the information under Risk Factors beginning on page 5 of this prospectus and the other information included or incorporated by reference in this prospectus before investing in our securities. Our Class A common stock is listed on the American Stock Exchange and trades under the symbol API. On September 23, 2005, the last reported sale price of our Class A common stock on the American Stock Exchange was \$3.11 per share.



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**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.

**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;

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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 segments, quality and/or reliability of our products is 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 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. At March 27, 2005, we had approximately \$8.2 million in backlog.

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**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 2005, 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 2005, 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.

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**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.

**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;

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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.

**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.

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**Use of Proceeds**

We will not receive any proceeds from the sale of the shares offered pursuant to this prospectus. All of the proceeds will be payable solely to the selling stockholders. We will, however, receive the proceeds from the exercise of the portion of the outstanding additional investment rights issued to the other investors in the private placement and the warrants issued to the selling stockholders and the other investors if and when they are exercised. We anticipate that the net proceeds from the exercise of the portion of the outstanding additional investment rights and the warrants would be used to pay down existing debt, for working capital and general corporate purposes.

The selling stockholders will pay any expenses customarily borne by selling stockholders (including underwriting discounts, commissions and fees and expenses of counsel to the extent not required to be paid by us). We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, but not limited to, all registration and filing fees, listing fees and expenses of our counsel and our accountants.

**Selling Stockholders**

The shares of Class A common stock being offered by the selling stockholders are issuable upon conversion of the additional convertible notes issued in connection with the selling stockholders' exercise of their additional investment rights and upon exercise of the additional warrants issued upon exercise of their additional investment rights. For additional information regarding the issuance of those convertible notes, warrants and additional investment rights, see Prospectus Summary The Private Placement above. We are registering the shares of Class A common stock in order to permit the selling stockholders to offer the shares for resale from time to time. Except for the ownership of the securities issued in connection with the October 2004 private placement, the selling stockholders have not had any material relationship with us within the past three years.

The term selling stockholders includes the stockholders listed below and their respective transferees, assignees, pledgees, donees or other successors. The table below lists the selling stockholders and other information regarding the beneficial ownership of the shares of Class A common stock by each of the selling stockholders. The second column lists the number of shares of Class A common stock beneficially owned by each selling stockholder, based on its ownership of the convertible notes and warrants and the additional convertible notes and additional warrants, as of September 23, 2005, assuming conversion of all convertible notes and exercise of all warrants held by the selling stockholders on that date, without regard to any limitations on conversions or exercise.

The third column lists the shares of Class A common stock being offered by this prospectus by the selling stockholders.

In accordance with the terms of registration rights agreements with the selling stockholders, this prospectus generally covers the resale of at least 130% of the sum of (i) the number of shares of Class A common stock issuable upon conversion of the additional

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convertible notes, as of the trading day immediately preceding the date the registration statement is initially filed with the SEC and (ii) the number of shares of Class A common stock issuable upon exercise of the related warrants as of the trading day immediately preceding the date the registration statement is initially filed with the SEC. Because the conversion price of the convertible notes and the exercise price of the warrants may be adjusted, the number of shares that will actually be issued may be more or less than the number of shares being offered by this prospectus. The fourth column assumes the sale of all of the shares offered by the selling stockholders pursuant to this prospectus.

Each selling stockholder has agreed not to convert the additional convertible notes or exercise the additional warrants to the extent such conversion or exercise would cause such selling stockholder, together with its affiliates, to beneficially own a number of shares of Class A common stock which would exceed 4.99% of our then outstanding shares of Class A common stock after giving effect to such conversion or exercise, excluding for purposes of such determination shares of Class A common stock issuable upon conversion of any convertible notes which have not been converted and any warrants which have not been exercised. The number of shares in the second column does not reflect this limitation. The selling stockholders may sell all, some or none of their shares in this offering. See Plan of Distribution.

Name of Selling Stockholder	Number of Shares Beneficially Owned Prior to the Offering	Maximum Number of Shares to be Sold Pursuant to this Prospectus (3)	Number of Shares to be Beneficially Owned After the Offering
Bluegrass Growth Fund, LP (1)	321,422	417,849	0
Bluegrass Growth Fund, Ltd (2)	321,422	417,849	0

<sup>1</sup> Brian Shatz has voting control and investment discretion over securities held by Bluegrass Growth Fund, LP. Mr. Shatz disclaims beneficial ownership of the Class A common stock held by Bluegrass Growth Fund, LP.

<sup>2</sup> Brian Shatz has voting control and investment discretion over securities held



by Bluegrass  
Growth Fund,  
Ltd. Mr. Shatz  
disclaims  
beneficial  
ownership of  
the Class A  
common stock  
held by  
Bluegrass  
Growth Fund,  
Ltd.

- <sup>3</sup> The number of  
shares of  
Class A  
common stock  
to be sold by the  
selling  
stockholders is  
based on  
(i) 100% of the  
number of  
shares of  
Class A  
common stock  
issuable to the  
selling  
stockholders  
upon conversion  
of the additional  
convertible  
notes and  
exercise of the  
additional  
warrants, and  
(ii) 30% of the  
number of  
shares of  
Class A  
common stock  
issuable to the  
selling  
stockholders  
representing a  
good faith  
estimate of the  
maximum  
number of  
additional  
shares that may

become issuable  
pursuant to a  
contractual  
agreement with  
the selling  
stockholders.

#### **Plan of Distribution**

We are registering the shares of Class A common stock issuable upon conversion of the additional convertible notes and upon exercise of the additional warrants issued in connection with the selling stockholders' exercise of their additional investment rights to permit the resale of these shares of Class A common stock by the holders of the additional convertible notes and

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additional warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling stockholders of the shares of Class A common stock. We will bear all fees and expenses incident to our obligation to register the shares of Class A common stock. We will not be paying any underwriting discounts or commissions in this offering. We have also agreed with the selling stockholders to reimburse them for fees and disbursement in an amount not to exceed \$5,000 incurred in connection with this registration statement

The selling stockholders may sell all or a portion of the shares of Class A common stock beneficially owned by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of Class A common stock are sold through underwriters or broker-dealers, the selling stockholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of Class A common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, such as:

- sales on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- sales in the over-the-counter market;
- transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- the writing of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- sales pursuant to Rule 144;
- sales through broker-dealers who may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

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a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

If the selling stockholders effect such transactions by selling shares of Class A common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of the shares of Class A common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of Class A common stock or otherwise, the selling stockholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of Class A common stock in the course of hedging in positions they assume. The selling stockholders may also sell shares of Class A common stock short and deliver shares of Class A common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling stockholders may also loan or pledge shares of Class A common stock to broker-dealers that in turn may sell such shares.

The selling stockholders may pledge or grant a security interest in some or all of the convertible notes, warrants, additional investment rights or shares of Class A common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of Class A common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer and donate the shares of Class A common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders and any broker-dealer participating in the distribution of the shares of Class A common stock may be deemed to be underwriters within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of Class A common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of Class A common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the shares of Class A common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of Class A common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

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There can be no assurance that any selling stockholder will sell any or all of the shares of Class A common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of Class A common stock by the selling stockholders and any other person participating in this offering. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of Class A common stock to engage in market-making activities with respect to the shares of Class A common stock. All of the foregoing may affect the marketability of the shares of Class A common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of Class A common stock.

We will pay all expenses of the registration of the shares of our Class A common stock pursuant to the registration rights agreement, estimated to be \$5,000 in total, including, without limitation, SEC filing fees and expenses of compliance with state securities or blue sky laws. However, the selling stockholders will pay all underwriting discounts and selling commissions, if any. We have agreed to indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreements, or the selling shareholders will be entitled to contribution. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of Class A common stock will be freely tradable in the hands of persons other than our affiliates.

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**Legal Matters**

Dornbush Schaeffer Strongin & Weinstein, LLP, New York, New York, will pass on certain legal matters in connection with the offering, including the validity of the issuance of the shares being offered hereby.

**Experts**

The consolidated financial statements incorporated in this prospectus by reference from our Annual Report on Form 10-K for the year ended March 27, 2005 have been audited by Farber & Hass LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**Where You Can Find More Information**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any public offering document we file, including a copy of the registration statement on Form S-3 of which this prospectus is a part, without charge at the SEC's Public Reference Room, 450 Fifth Street, N.W., Room 204, Washington, D.C. 20549. You can also request copies of all or any portion of these documents by writing the Public Reference Section and paying certain prescribed fees. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Section. Additionally, these documents are available to the public from the SEC's web site at <http://www.sec.gov>.

The SEC allows us to incorporate by reference into this prospectus the information we file with the SEC. This means that we are disclosing important information to you by referring to other documents. The information incorporated by reference is considered to be part of this prospectus, except for any information superseded by information contained directly in this prospectus. Information that we file later with the SEC under the Exchange Act will automatically update information in this prospectus. In all cases, you should rely on the later information over different information included in this prospectus. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act until this offering is completed:

Annual Report on Form 10-KSB for the fiscal year ended March 27, 2005;

Current Report on Form 8-K, filed on June 28, 2005;

Current Report on Form 8-K filed on July 7, 2005;

Current Report on Form 8-K/A, filed on July 11, 2005;

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Current Report on Form 8-K/A, filed on July 18, 2005;

Current Report on Form 8-K/A filed on August 4, 2005;

Current Report on Form 8-K, filed on August 15, 2005;

Quarterly Report on Form 10-Q for the quarter ended June 26, 2005;

Current Report on Form 8-K, filed on September 9, 2005;

Current Report on Form 8-K, filed on September 16, 2005;and

The description of our Class A common stock contained in our Registration Statement on Form 8-A dated January 16, 1991 filed under the Exchange Act, including any amendments or reports filed for the purposes of updating such description.

You may request a copy of these filings, or any other documents or other information referred to in, or incorporated by reference in, this prospectus, at no cost, by writing or calling us at the following address or telephone number:

Advanced Photonix, Inc.  
1240 Avenida Acaso  
Camarillo, California 93012  
Attention: Secretary  
(805) 987-0146

Exhibits to any documents incorporated by reference in this prospectus will not be sent, however, unless those exhibits have been specifically referenced in this prospectus.

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**Indemnification**

Our Certificate of Incorporation allows us to indemnify our officers and directors to the maximum extent allowed under Delaware law. This includes indemnification for liabilities which could arise under the Securities Act. Insofar as we are permitted to indemnify our officers and directors, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.



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**835,696 Shares of  
Class A Common Stock  
PROSPECTUS**

October 17, 2005

**Prospective investors may rely only on the information contained in this prospectus. Neither Advanced Photonix, Inc. nor any selling stockholder has authorized anyone to provide prospective investors with information different from that contained or incorporated by reference in this prospectus. This prospectus is not an offer to sell nor is it seeking an offer to buy the shares of our Class A common stock being offered hereby in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is correct only as of the date of this prospectus, regardless of the times of the delivery of this prospectus or any sale of the shares of our Class A common stock.**