SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

X Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2000 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission File Number 0-16106

APA Optics, Inc.
(exact name of Registrant as specified in its charter)

Minnesota
41-1347235
(State or other jurisdiction of
(I.R.S. Employer Identification No.)
incorporation or organization)

2950 N.E. 84th Lane, Blaine, Minnesota 55449
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code:
(612) 784-4995

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 the filing requirement for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class:
Outstanding at July 28, 2000
Common stock, par value $.01
11,893,860

<TABLE>
<CATION>

PART 1, FINANCIAL INFORMATION

ITEM 1, FINANCIAL STATEMENTS

APA OPTICS, INC.
CONDENSED BALANCE SHEETS

ASSETS	June 30, 2000	March 31, 2000
<S>	<C>	<C>
CURRENT ASSETS:	(Unaudited)	(Audited) *
Cash and short-term investments	$20,024,351	$5,941,90

		6
Accounts receivable	217,102	209,337
Inventories:		
Raw materials	165,153	146,841
Work-in-process & finished goods	154,984	129,684
Prepaid expenses	15,528	19,803
Bond reserve funds	21,667	65,000
TOTAL CURRENT ASSETS	20,598,785	6,512,571
PROPERTY AND EQUIPMENT NET	2,437,677	2,459,760
OTHER ASSETS	640,622	638,060
	$ 23,677,084	$ 9,610,391
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 141,194	$ 140,871
Accounts payable	77,547	82,412
Accrued expenses	156,994	172,672
TOTAL CURRENT LIABILITIES	375,735	395,955
LONG-TERM DEBT	2,794,759	2,908,387
SHAREHOLDERS' EQUITY		
Undesignated shares; 4,999,500 shares authorized		
None issued		
Preferred stock, par value:		
Authorized shares; 500		
Issued and outstanding shares. 500	5	5
Common stock, $.01 par value;		
Authorized shares - 15,000,000		
Issued & outstanding shares - 10,136,082 And 8,997,992	101,361	89,980
Paid-in capital	31,507,281	16,408,446
Retained earnings (deficit)	(11,102,057)	(10,192,382)
	20,506,590	6,306,049
	$23,677,084	$ 9,610,391

</TABLE>
*Derived from audited financial statements

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APA OPTICS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended June 30	
	2000	1999
<S>	<C>	<C>
REVENUES	$ 51,517	$ 66,597
COSTS AND EXPENSES:		
Cost of sales and services	634,501	651,260
Selling, general & administrative	328,816	209,860
Research & development	90,999	118,112

	1,054,316	979,232
Loss from operations:	(1,002,799)	(912,635)
INTEREST INCOME & EXPENSE:		
Interest Income	136,402	32,213
Interest Expense	(43,028)	(35,918)
	93,374	(3,705)
Loss before income taxes	(909,425)	(916,340)
Income taxes	250	250
Net loss	$ (909,675)	$ (916,590)
Net loss per share Basic and diluted	$ (.10)	$ (.11)
Weighted average shares outstanding Basic and diluted	9,193,663	8,512,274

</TABLE>

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APA OPTICS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended June 30, 2000	1999
OPERATING ACTIVITIES		
<S>	<C>	<C>
Net income (loss)	$ (909,675)	$ (916,590)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	95,790	109,545
Changes in operating assets and liabilities:		
Accounts receivable	(7,765)	(3,760)
Inventories and prepaid expenses	(39,337)	14,046
Accounts payable and accrued expenses	(20,543)	33,082
Other	(42,753)	(2,375)
Net cash used in operating activities	(924,283)	(766,052)
INVESTING ACTIVITIES		
(Purchases) sales of property and equipment	(52,707)	(47,036)
Net cash used in investing activities	(52,707)	(47,036)
FINANCING ACTIVITIES		
Proceeds from the sale of common stock	15,110,216	---

Repayment of long term debt	(113,305)	(87,623)
Bond reserve funds	62,524	695
Net cash (used in) provided by financing activities	15,059,435	(86,928)
Increase (decrease) in cash	14,082,445	(900,016)
Cash at Beginning of Period	5,941,906	2,812,849
Cash at End of Period	$20,024,351	$ 1,912,833

</TABLE>

NOTE TO CONDENSED FINANCIAL STATEMENTS

1. In the opinion of management, the information furnished reflects all adjustments which are necessary to fairly state the results of the interim periods presented. All adjustments were of a normal recurring nature. The results of any interim period are not necessarily indicative of results for the full year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company is engaged in the business of designing, manufacturing, and marketing optical components and various optoelectronic products. For the last several years the Company's goal has been to manufacture and market products/components based on its technology developments. The Company selected two product areas: dense wavelength division multiplexer (DWDM) components for fiber optic communications and gallium nitride-based ultraviolet (UV) detectors (both components and integrated detector/electronic/display packages.) These areas were selected due to significant potential markets and the Company's expertise and/or patent positions.

In order to perform product development and production, the Company must devote its personnel and facilities to that effort. For several years, the Company received significant revenues from providing research and development services in connection with projects sponsored by various government agencies. In fiscal 1998, the Company determined to shift its emphasis from research and development to product development, realizing that this shift would significantly reduce revenues and increase losses until the Company realized revenues from its products. If the Company is successful in manufacturing and marketing these products, the Company expects to significantly increase its revenues and achieve profitability. Although the Company has purchased a significant amount of equipment in recent fiscal years, it will still need additional equipment as well as additional personnel to meet its objectives.

Results of Operations

Operating revenues for the first quarter of fiscal year 2001, ended June 30, 2000, were $51,517, a decrease of 23% from operating revenues of $66,597 for the same period in the prior year. The decrease in revenues reflects the Company's limited sales of new products, which the Company is working to increase.

Cost of sales decreased by approximately 3% to $634,501, in first quarter 2001 from $651,260 in first quarter 2000. Gross margin for sales was negative in both periods, reflecting continued personnel and product development costs. Research and development expenses decreased by approximately 23% in first quarter 2001, to $90,999 from $118,112, and

selling, general and administrative expenses increased by 57% to $328,816 compared to
$209,860 in first quarter 2000. The increase in costs of sales, and selling, general and administrative expenses reflects the Company's focus on product development, including the hiring of additional personnel for production, marketing, and sales.

The Company reported a loss from operations for the first quarter of fiscal 2001 of $1,002,799, an increase over the loss from operations of $912,635 in the first quarter of the prior year. This loss results from the combination of decreased revenues with a corresponding increase in costs and expenses.

The Company realized $136,402 in interest income for the first quarter of fiscal 2001, up 323% from $32,213 in the prior period, reflecting higher average cash balances during the first quarter 2001. Interest expenses in first quarter 2001 totaled $43,028, up 20% from $35,918 in the prior period, reflecting an early payment of interest due in the second quarter of FY 2001. As a result interest expense in the second quarter will be lower.

Liquidity and Capital Resources:

The Company's cash and equivalents balance at June 30, 2000 is $20,024,351 compared to $5,941,906 at March 31, 2000. This results from the sale of 1,241,935 shares of the Company's common stock under an S-3 Registration Statement for $100 million worth of common stock, of which approximately $15 million had been sold on or before June 30, 2000. As of the date of this report, the Company has received over $39 million in net proceeds from this offering. The funds will be used for enhancing production facilities, product development and marketing, and operations. The Company believes that it has sufficient funds for operations in fiscal 2001 and beyond.

The Company used $924,283 net cash for operating activities, of which the most significant cause was the net loss of $909,675. The Company used $52,707 net cash in investing activities in first quarter of fiscal 2001, all for the purchase of equipment, primarily for the Aberdeen facility.

The Company anticipates approximately $2 million in capital expenditures in fiscal 2001, primarily for equipment. The funds for these purchases will come primarily from proceeds from sales of common stock pursuant to a "shelf-registered" public offering, described above.

Forward Looking Statements

Statements in this Report with respect to future sales prospects and other matters to occur in the future are forward looking statements and are subject to uncertainties from factors, many of which are beyond the Company's control. These factors include, but are not limited to, the continued development of the Company's products, acceptance of those products by potential customers, the Company's ability to sell such products at a profitable price, and the Company's ability to fund its operations.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's operations are not currently subject to market risks for interest rates, foreign rates, commodity prices or other market price risks of a material nature.

Part II

ITEM 1. Not applicable

ITEM 2. Changes in Securities and Use of Proceeds.

On June 21, 2000, we issued a three-year warrant to Ladenburg-Thalmann & Co., Inc. for the purchase of 84,083 shares of common stock at $17.8395 per share. This warrant was issued in consideration of Ladenburg's services as placement agent of our common stock in the $100 million public offering described above. This warrant was issued without registration under the Securities Act of 1933 in reliance on Section 4 (2) and Section 4 (6) of the Securities Act of 1933.

ITEM 3-5. Not Applicable

ITEM 6. Exhibits and Reports on Form 8-K.

(a) Exhibit 27: Financial Data Schedule

(b) There were no reports on Form 8-K filed during the three months ended June 30, 2000.

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.

APA OPTICS, INC.
8/11/00
/s/ Anil K. Jain

Date
Anil K. Jain

President

Principal Executive Officer

Treasurer & Principal Financial

Officer

8/11/00
/s/ Randal J. Becker

Date
Randal J. Becker

Accounting Manager

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