

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, 1998 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 June 30, 1998
Common stock, par value \$.01
8,512,274

PART 1, FINANCIAL INFORMATION

ITEM 1, FINANCIAL STATEMENTS

APA OPTICS, INC.
CONDENSED BALANCE SHEETS

ASSETS	June 30	March
	1998	31
		1998
CURRENT ASSETS:	(Unaudited)	(Audited)
		*
Cash and short-term investments	\$ 4,748,116	\$5,184,21

Accounts receivable	203,321	5
		236,284
Inventories:		
Raw materials	10,182	11,965
Work-in-process & finished goods	157,546	145,156
Prepaid expenses	11,926	22,975
Bond reserve funds	119,958	131,667
TOTAL CURRENT ASSETS	5,251,049	5,732,262
PROPERTY AND EQUIPMENT NET	2,663,758	2,702,887
OTHER ASSETS	1,173,657	1,194,763
	\$ 9,088,464	\$ 9,629,912
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 231,385	\$ 226,385
Accounts payable	33,294	36,960
Accrued expenses	135,862	123,437
TOTAL CURRENT LIABILITIES	400,541	386,782
LONG-TERM DEBT	3,306,206	3,383,267
SHAREHOLDERS' EQUITY		
Undesignated shares; 5,000,000 shares authorized; none issued	---	---
Common stock, \$.01 par value; 15,000,000 shares authorized; 8,512,274 & 8,512,274 issued	85,123	85,123
Paid-in capital	9,657,028	9,657,028
Retained earnings (deficit)	(4,360,434)	(3,882,288)
	5,381,717	5,859,863
	\$ 9,088,464	\$ 9,629,912

*Derived from audited financial statements

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

Three months ended
June 30

	1998	1997
REVENUES	\$ 248,557	\$ 661,640
COSTS AND EXPENSES:		
Cost of sales and services	524,519	534,059
Selling general &		

administrative	132,417	122,059
Research & development	91,003	58,429
	747,939	714,547
Gain/Loss from Operations:	(499,382)	(52,907)
INTEREST INCOME & EXPENSE:		
Interest Income	66,913	70,128
Interest Expense	(45,676)	(45,856)
	21,237	24,272
Loss before		
Income taxes	(478,145)	(28,635)
Income taxes		300
	0	
Net loss	\$ (478,145)	\$ (28,935)
Net loss per share		
Basic and diluted	\$ (.06)	\$ (.00)
Weighted average shares		
outstanding		
Basic and diluted	8,512,274	8,306,932

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

Three Months Ended

June

1998	1997		
OPERATING ACTIVITIES			
Net income (loss)		\$	\$
		(478,145)	(28,935)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		109,251	103,529
Changes in operating assets and liabilities:			
Accounts receivable		32,963	(94,321)
Inventories and prepaid expenses		442	(33,405)
Accounts payable and accrued expenses		13,759	31,568
Other		(8,341)	(1,543)
Net cash used in operating activities		(330,071)	(23,107)
INVESTING ACTIVITIES			
(Purchases) Sales of property and equipment		(46,122)	(395,660)
Net cash used in investing activities		(46,122)	(395,660)
FINANCING ACTIVITIES			
Proceeds from the sale of common stock		---	625

Repayment of Long Term Debt	(77,061)	(12,180)
Bond reserve funds	17,155	(12,110)
Net cash used in financing activities	(59,906)	(23,665)
decrease in cash	(436,099)	(442,432)
Cash at Beginning of Period	5,184,215	3,875,205
Cash at End of Period	\$ 4,748,116	\$ 3,432,773

NOTE TO CONDENSED FINANCIAL STATEMENTS

1. In the opinion of management, the information furnished reflects all adjustments which are necessary to a fair statement of 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.

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

Results of Operations:

Revenues for the first quarter of fiscal 1999 ended June 30, 1998 were \$248,557, a decrease of 62% from the first quarter of fiscal 1998 ended June 30, 1997. The decrease in revenues can be attributed to a substantial reduction in government contract work, which has historically been the Company's main source of revenues. The Company will need to replace these lost revenues with production revenues.

For the first quarter of fiscal 1999, the Company is reporting a net loss of \$478,146 as compared to a net loss of \$28,935 in the first quarter of fiscal 1998. The substantial increase in losses for the first quarter 1999 can be attributed to the 62% reduction in revenues coupled with operating costs (approximately \$225,000) including salaries, overhead, and depreciation at the Aberdeen Production Center in Aberdeen, South Dakota. The Company has also significant costs (approximately \$91,000) in the continued development of its detectors and Wavelength Divisional Multiplexer (WDM), another product related to fiber optic communications. The Company anticipates the losses to continue until the Company achieves a level of revenue sufficient to cover the production costs. The Company has sold qualification units of its UV detectors to more than 20 companies. The Company hopes it can start selling these detectors in large quantities to generate revenues. The Company has also received orders for a few WDMs units from two large companies. The Company hopes that it will generate revenues from the sales of additional WDM units in the forthcoming quarters.

Liquidity and Capital Resources:

The Company's cash balance at June 30, 1998 is \$4,748,116 compared to \$5,184,215 at March 31, 1998. The cash decrease can be attributed to the losses incurred during the first quarter of fiscal 1999. The Company believes it has sufficient working capital to sustain operations through fiscal 1999 and beyond.

Forward-looking statements contained herein are made pursuant to the safe harbor provisions of the Private Litigation Reform Act 1995. These statements are based upon the Company's current expectations and judgments about future developments in the Company's business. Certain important factors could have a material impact on the Company's performance, including, without limitation, delays in or increased costs of production, delays in or lower than anticipated sales of the Company's new products, and other factors discussed from time to time in the Company's filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements. The Company undertakes no obligation to update such statements to reflect actual events.

The Company has assessed and continues to assess the impact of the Year 2000 issues on its reporting systems and operations. The Company plans to devote the necessary resources to resolve all significant Year 2000 issues in a timely manner. If Year 2000 modifications are not properly completed either by the Company or any entities with whom the Company conducts business, the Company could be adversely impacted.

PART II. OTHER INFORMATION

ITEM 1 Legal Proceedings Status.

On or about November 22, 1997, the Company commenced litigation in the Anoka County District Court (Minnesota) against two of its former employees, Asif Khan and Jinwei Yang, contending that the defendants are in breach of their respective confidentiality agreements and that APA is entitled to both damages and injunctive relief under the Uniform Trade Secrets Act. Both of the defendants were employed by the Company in the area of research and development of Gallium Nitride and are the subjects of a confidentiality agreement. APA's Motion for a Temporary Injunction was denied on February 19, 1998. In June 1998, the parties submitted to mediation and reached agreement on the terms of a settlement, which is subject to preparation and execution of related documentation.

ITEM 2-5. Not Applicable

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

(a) Exhibit 27: Financial Data Schedules

(b) There were no reports on Form 8-K filed during the three months ended June 30, 1998.

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.

8/12/98

/s/ Anil K. Jain

Date

Anil K. Jain

President

Principal Executive Officer

Treasurer & Principal Financial

Officer

8/12/98

/s/ Randal J. Becker

Date

Randal J. Becker

Principal Accounting Officer

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