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

FORM 10-Q

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

For the quarterly period ended September 30, 2005

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

Commission File Number 0-16106

APA Enterprises, Inc.

(Exact name of Registrant as specified in its charter)

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

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

(763) 784-4995
(Registrant's telephone number, including area code)

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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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

Yes ☐ 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 November 4, 2005
Common stock, par value $.01	11,872,331

APA ENTERPRISES, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

APA ENTERPRISES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 2005	March 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 8,880,807	$ 10,813,492
Accounts receivable, net of allowance for uncollectible accounts of $76,677 at September 30, 2005 and $57,107 at March 31, 2005	1,716,797	1,446,248
Inventories	1,650,994	1,270,653
Prepaid expenses and other	398,120	395,920
Total current assets	12,646,718	13,926,313
Property, plant and equipment, net	3,571,453	3,946,998
Other assets:		
Bond reserve funds	338,140	337,091
Goodwill	3,422,511	3,422,511
Other	371,190	441,101
	4,131,841	4,200,703
Total assets	$ 20,350,012	$ 22,074,014
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 1,364,920	$ 1,471,036
Accounts payable	1,079,043	814,005
Accrued compensation	762,377	568,950
Accrued expenses	147,622	190,062
Total current liabilities	3,353,962	3,044,053
Long-term debt, net of current maturities	25,833	107,800
Shareholders' equity:		
Undesignated shares, 4,999,500 authorized shares; no shares issued and outstanding	-	-
Preferred stock, $.01 par value; 500 authorized shares; no shares issued and outstanding	-	-
Common stock, $.01 par value; 50,000,000 authorized shares; 11,872,331 shares issued and outstanding at September 30, 2005 and March 31, 2005	118,723	118,723
Additional paid-in capital	51,962,774	51,960,084
Accumulated deficit	(35,111,280)	(33,156,646)
Total shareholders' equity	16,970,217	18,922,161
Total liabilities and shareholders' equity	$ 20,350,012	$ 22,074,014

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

APA ENTERPRISES, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Revenues	$ 4,069,367	$ 3,668,068	$ 7,581,930	$ 7,355,786
Cost of sales	3,165,297	2,885,804	5,952,750	5,972,647
Gross profit	904,070	782,264	1,629,180	1,383,139
Operating expenses				
Research and development	346,707	220,595	670,305	411,803
Selling, general and administrative	1,677,031	1,474,208	3,147,439	2,825,115
	2,023,738	1,694,803	3,817,744	3,236,918
Loss from operations	(1,119,668)	(912,539)	(2,188,564)	(1,853,779)
Other income	79,437	55,221	281,159	320,827
Other expense	(22,647)	(24,979)	(45,529)	(50,231)
	56,790	30,242	235,630	270,596
Loss before income taxes	(1,062,878)	(882,297)	(1,952,934)	(1,583,183)
Income taxes	750	750	1,700	2,700
Net loss	$ (1,063,628)	$ (883,047)	$ (1,954,634)	$ (1,585,883)
Net loss per share:				
Basic and diluted	($0.09)	($0.07)	($0.16)	($0. 13)
Weighted average shares outstanding:				
Basic and diluted	11,872,331	11,872,331	11,872,331	11,872,331

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

APA ENTERPRISES, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended September 30,	
	2005	2004
Cash Flow from operating activities		
Net loss	$ (1,954,634)	$ (1,585,883)
Adjustments to reconcile net loss to net cash used in operating activities, net of acquisition:		
Depreciation and amortization	544,573	476,303
Gain on sale of assets	(93,126)	(208,314)
Compensation expense, net	2,690	(28,908)
Changes in operating assets and liabilities:		
Accounts receivable, net	(270,549)	246,651
Inventories	(380,341)	(3,083)
Prepaid expenses and other	(51,775)	24,455
Accounts payable and accrued expenses	416,025	133,199
Net cash used in operating activities	(1,787,137)	(945,590)
Cash flow from investing activities		
Purchases of property and equipment	(234,793)	(293,909)
Proceeds from sale of assets	111,680	220,000
Net cash used in investing activities	(123,113)	(73,909)
Cash flow from financing activities		
Repayment of long-term debt	(68,083)	(205,648)
Decrease in bond reserve funds	45,648	43,692
Net cash used in financing activities	(22,435)	(161,956)
Decrease in cash and cash equivalents	(1,932,685)	(1,181,455)
Cash and cash equivalents at beginning of period	10,813,492	13,544,910
Cash and cash equivalents at end of period	$ 8,880,807	$ 12,363,455
Noncash investing and financing activities		
Capital expenditure included in accounts payable	$ -	$ (225,000)

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 2005.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications of previously reported amounts have been made to conform that presentation to the current period presentation.

Note 2. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Numerator for basic and diluted net loss	$ (1,063,628)	$ (883,047)	$ (1,954,634)	$ (1,585,883)
Denominator for basic and diluted net loss per share - weighted average shares outstanding	11,872,331	11,872,331	11,872,331	11,872,331
Basic and diluted net loss per share	($0.09)	($0.07)	($0.16)	($0.13)

Common stock options and warrants to purchase 647,195 and 873,742 shares of common stock with a weighted average exercise price of $2.96 and $6.65 were outstanding at September 30, 2005 and 2004, respectively, but were excluded from calculating diluted net loss per share because they were antidilutive.

Note 3. Segment Reporting

The Company has identified two reportable segments based on its internal organizational structure, management of operations, and performance evaluation. These segments are (1) Optronics and (2) Cables and Networks (APACN). Optronics' revenue is generated in the design, manufacture and marketing of ultraviolet (UV) detection and measurement devices and optical components. Cables & Network's revenue is derived primarily from standard and custom fiber optic cable assemblies, copper cable assemblies, value added fiber optics frames, panels and modules. Expenses are allocated between the companies based on detailed information contained in invoices. In addition, corporate overhead costs for management's time and other expenses are allocated to each segment.

Segment detail is summarized as follows (unaudited, in thousands):

	Optronics	Cables & Networks	Eliminations	Consolidated
Three months ended September 30, 2005				
External sales	$ 109	$ 4,058	$ (98)	$ 4,069
Gross profit (loss)	(192)	1,097	(1)	904
Operating income (loss)	(1,127)	7	-	(1,120)
Depreciation and amortization	217	58	-	275
Capital expenditures	52	62	-	114
Assets	20,257	7,440	(7,347)	20,350
Three months ended September 30, 2004				
External sales	$ 149	$ 3,623	(104)	$ 3,668
Gross profit (loss)	(240)	1,022	-	782
Operating income (loss)	(1,026)	113	-	(913)
Depreciation and amortization	179	58	-	237
Capital expenditures	2	30	-	32
Assets	24,056	7,506	(7,391)	24,171
Six months ended September 30, 2005				
External sales	$ 213	$ 7,566	$ (197)	$ 7,582
Gross profit (loss)	(378)	2,009	(2)	1,629
Operating loss	(2,128)	(61)	-	(2,189)
Depreciation and amortization	427	118	-	545
Capital expenditures	139	96	-	235
Assets	20,257	7,440	(7,347)	20,350
Six months ended September, 2004				
External sales	$ 292	$ 7,295	(231)	$ 7,356
Gross profit (loss)	(669)	2,052	-	1,383
Operating income (loss)	(2,061)	207	-	(1,854)
Depreciation and amortization	364	112	-	476
Capital expenditures	236	58	-	294
Assets	24,056	7,506	(7,391)	24,171

Note 4. Sale of Optics Manufacturing Operations

In January, 2004 the Company announced the cessation of optics manufacturing at its Blaine, Minnesota facility. The closure was the result of aggressive off-shore pricing and continued lower demand for this product line. This resulted in a charge of $171,000 taken in the 4th quarter ended March 31, 2004. The Company sold its optics manufacturing operations on April 14, 2004 for $220,000. The terms of the sale required the Company to restructure a loan with the Aberdeen Development Corporation (ADC), which included an upfront loan payment of $89,305 and payment of the remaining $140,000 loan amount in seven annual installments of $20,000 each beginning June 30, 2004. The Company recorded a gain of approximately $208,000 on the sale in the first quarter of fiscal 2005.

Note 5. Sale of Land

In June 2005 the Company sold approximately 2 acres of its land in Aberdeen, South Dakota to the Aberdeen Development Corporation (ADC) in exchange for the retirement of its remaining $120,000 debt on its loan with ADC. The land was granted to APA in conjunction with building a facility in Aberdeen and was part of a single parcel of approximately 12 acres on which the Company has constructed and operates its manufacturing facility. The Company recognized a gain of approximately $109,000 on the sale of the land in the first quarter of fiscal 2006.

Note 6. Stock Based Compensation

The Company has various incentive and non-qualified stock option plans which are used as an incentive for directors, officers, and other employees. The Company uses the intrinsic value method to value stock options issued to employees. Under this method, compensation expense is recognized for the amount by which the market price of the common stock on the date of grant exceeds the exercise price. The Company's stock based compensation expense also reflects the benefit of the cancellation of previously unvested expensed options. The Company rec-ognized compensation income of $1,851 and expense of $2,690 for the three and six months ended September 30, 2005, versus recognizing compensation income of $15,446 and $28,908 for the three and six months ended September 30, 2004. For those stock options granted where the exercise price was equal to the market value of the underlying common stock on the date of grant, no stock-based employee compensation cost is reflected in the net loss. Had the fair value method been applied, our compensation expense would have been different.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value method, to stock-based employee compensation for the following three and six months ended:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Net loss to common shareholders - as reported	$ (1,063,628)	$ (883,047)	$ (1,954,634)	$ (1,585,883)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(29,961)	(37,980)	(61,526)	(86,322)
Net loss - pro forma	$ (1,093,589)	$ (921,027)	$ (2,016,160)	$ (1,672,205)
Basic and diluted net loss per common share - as reported	($0.09)	($0.07)	($0.16)	($0.13)
Basic and diluted net loss per common share - pro forma	($0.09)	($0.08)	($0.17)	($0.14)

Note 7. Adoption of New Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment.* This statement requires the compensation cost relating to share-based payment transactions to be recognized in a company's financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The Company is required to apply Statement 123(R) effective April 1, 2006. Management has not yet determined the impact.

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

Statements in this Report about future sales prospects and other matters to occur in the future are forward looking statements and are subject to uncertainties due to many factors, many of which are beyond our control. These factors include, but are not limited to, the continued development of our products, acceptance of those products by potential customers, our ability to sell such products at a profitable price, and our ability to fund our operations. For further discussion regarding these factors, see "Factors That May Influence Future Results."

OVERVIEW

APA Enterprises, Inc., (formerly known as APA Optics, Inc.) consists of the Optronics group and the Cables & Networks group (APACN or Cables & Networks). Optronics is active in the development, design, manufacture and marketing of ultraviolet (UV) measurement instruments for consumers and industrial customers, and gallium nitride (GaN) based transistors for power amplifiers and other commercial applications. APACN designs, manufactures and markets a variety of fiber optic and copper components for the data communication and telecommunication industries. Both groups also source components and devices from third parties for direct and value-added sales to our customers in all these technology areas.

APACN provides broadband service providers a complete line of high-performance components and connectivity solutions that enable customers to implement reliable networks that extend from the central office through the outside plant including the APACN Fiber Scalability Center (FSC), a modular line of outside plant cabinets, for the Fiber to the Premise (FTTP) market. The Company began shipping FSCs in Fiscal 2005.

In addition, APACN supplies custom products and value-added services to Original Equipment Manufacturers (OEMs) and commercial data networks.

In January 2004 Optronics terminated its optics manufacturing in Blaine, Minnesota as described in Note 4. Additionally in January 2004 Optronics consolidated its fiber optics product line operations within Blaine. Optronics plans to continue to market and sell fiber optic products using mainly APACN's sales team and channels. We outsource several components from third parties including passive optical splitters, arrayed waveguides (AWGs) and wavelength division multiplexers (WDMs) based on Thin Film Filter (TFF) technology, which we combine with our internally manufactured products to create value added components for our customers. The majority of our outsourced product providers are located offshore.

Plastic and metal models of the consumer Personal UV Monitor (PUVM) offered by Optronics continue in production, and the focus remains on sales for the spring/summer 2006 season. An attractive new clip-on hybrid plastic/metal model that can be manufactured to our quality standards by the supplier has been developed. A new product called the *SunUVStation*™ has also been introduced and we plan to provide samples to retail channels in the third quarter of fiscal 2006. This product is similar in size to an outdoor temperature gauge, measures the UV Index and is targeted to consumers and institutions for use in backyards, patios, swimming pool areas, and other public places where people need to be reminded about UV intensity. Manufacturing will be performed, in part, in our APA facility in India. The SunUVStation complements the PUVM and retailers are interested in offering both.

Optronics' 4-band *Profiler M* radiometer, which serves the printing and coating industries that use UV curing, is now in production and sales have started. This instrument measures the intensity and distribution of four UV bands to help set up and monitor the curing process. Two domestic distributors offer the product, and additional domestic and international distribution discussions are underway. We plan to sell the instrument through equipment and supplies manufacturers in addition to general distributors.

Optronics continues to offer epitaxial foundry services for GaN/AlGaN transistors to third parties. We also use our foundry for internal research and development, to advance our development of power amplifiers used primarily for cellular infrastructure applications. Manufacturing reliable transistors is difficult and costly due to the challenge of developing long-lived, stable transistors and the necessary large investment in capital equipment. While the Optronics R&D division routinely processes epitaxial layers to ensure suitability for power transistors, we have, in the past, relied on contractual services and support from other sources to process, package, and test the transistors needed to develop these power amplifiers. As others in the industry work to demonstrate and manufacture reliable transistors, the Optronics R&D group will now procure such transistors while concentrating on the development and manufacture of power amplifiers. If we are successful in establishing procurement of such transistors from outside parties, our reliance on our foundry services will decrease. We will continue to seek licensing of our intellectual property and establish strategic business alignments.

Our wholly owned subsidiary, APA Optronics, Pvt. Ltd, India, established in fiscal year 2005, is now operational. The subsidiary, with its prime focus on low cost manufacturing of our products and components, has already started supplying samples for our Gallium Nitride and fiber optic products with expectations for products to be sold in the near future. The subsidiary is also providing software development for our Profiler M product. The subsidiary is also in process of providing marketing and sales support for our products both in the U.S. and India. The subsidiary, currently located in a leased facility, is in the process of constructing a larger facility in India, expected to be completed in the 4th quarter of fiscal 2006, to accommodate its future operations requirements.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2005 VS. THREE MONTHS ENDED SEPTEMBER 30, 2004

Consolidated revenues for the three months ended September 30, 2005 increased $401,299, or 11%, to $4,069,367 from $3,668,068 in 2004.

Revenues at Cables & Networks were $4,057,740, compared to sales of $3,622,735 reported in the same quarter a year ago, an increase of 12%. Sales for the current quarter to broadband service providers and commercial data networks were $2,847,000 versus $2,478,000 in the prior year quarter. The increase was primarily due to higher revenues from customers in the Fiber-to-the-Premise market which were offset by slightly lower sales to commercial data networks. Sales to OEM's were $1,210,000 versus $1,145,000 in the year ago period. The increase is due to orders from a new customer serving the test equipment market, offset by lower sales to our previously largest OEM customer compared to last year. This customer serves primarily the semiconductor industry. We expect that future sales of Cables & Networks products will continue to account for a substantial portion of our revenue. Historically, Cables & Networks has experienced a downturn in sales during the third quarter of the fiscal year due to the seasonal nature of some of the industries it serves. However, with the introduction of a broader product offering coupled with the expansion of the sales team into additional markets, we anticipate revenues at Cables & Networks to remain consistent with the second quarter of this year.

Gross revenues at Optronics decreased 26% to $109,877 from $149,194 in the same quarter a year ago. Gross revenues for the second quarter ended September 30, 2005 reflect $98,250 of sales to Cables & Networks for fiber optics products and subcontracted labor versus $103,861 in the comparable period last year. These sales are eliminated as intercompany sales in the consolidated financials in each quarter.

GROSS PROFIT AND COST OF SALES

Cables & Network's gross profit increased $75,562, or 7%, to $1,097,245 from $1,021,683. The increase in gross profit was mainly from higher sales in the current quarter. The Company has successfully lowered product costs over the past year and continues to pursue component and labor cost reductions to respond to ongoing market pressures in order to maintain its gross margins.

Gross cost of sales at Optronics decreased $86,486, or 22%, to $302,127 from $388,613. Gross cost of sales reflects $97,325 related to cost of sales to Cables & Networks for fiber optics products and subcontracted labor versus $103,861 in the last year period. These costs are eliminated as intercompany cost of sales in the consolidated financials in each quarter. Cost of sales expenses for the current period for all Optronics product lines consists of approximately $146,000 in personnel costs, $64,000 in depreciation and $92,000 in materials and allocated overhead. This compares to prior year personnel expenses of approximately $171,000, depreciation of $71,000 and supplies and overhead of $147,000. The overall decrease in cost of sales expenses is due to lower materials and personnel related costs between years, mainly within the GaN area, both due to expense reductions related to the procurement of GaN products from off shore suppliers.

We anticipate comparable gross margins for Cables & Networks and cost of sales for Optronics for the third quarter.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of the research and development expense at Optronics. There have been no significant research and development expenses at Cables & Networks. Expenses increased $126,112 to $346,707, from $220,595 in the prior year period. The increase is due mainly to personnel and materials costs associated with power amplifier development, along with additional facility rent and depreciation expenses associated with the semiconductor machine housed at an outside facility which began operating in November 2004.

SELLING, GENERAL, AND ADMINISTRATIVE

Consolidated selling, general, and administrative (S, G, & A) expenses increased $202,823, or 14%, to $1,677,031 from $1,474,208 in 2004.

S, G, & A expenses at Cables & Networks increased $181,254, or 20%, to $1,090,184 from $908,930. The majority of the increase is attributable to additional sales personnel and related selling costs as a part of our plan to grow our revenue and customer base. We expect expenses to increase slightly as we continue to expand our sales presence and grow revenue.

S, G, & A expenses at Optronics increased $22,494, or 4%, to $587,772 from $565,278. The increase is due mainly to higher personnel and material expenses associated with the start up our newly acquired India facility, offset by lower professional fees.

INCOME (LOSS) FROM OPERATIONS

Consolidated losses from operations increased $207,129, or 23%, to $1,119,668 from $912,539 in 2004.
The income from operations at Cables & Networks was $7,061 versus income of $112,753 in the fiscal 2004 quarter. The decreased income in the quarter was mainly due to increased selling expenses absorbed as part of Cables & Networks planned investment in revenue growth.

The loss from operations at Optronics increased $101,437, or 10%, to $1,126,729, from a loss of $1,025,292 in the year ago period. The increase in the loss is related to additional R&D expenses. We expect to incur losses at Optronics until we realize significant revenues from the sales of our PUVM and GaN related products.

OTHER INCOME AND EXPENSE

Consolidated other income and expense increased $26,548 to $56,790 from $30,242 in 2004.

Other income at Cables & Networks increased $4,321. Other expense increased $19,123 due to an increase in interest expense, primarily due to a higher interest rate in the current period.

Other income at Optronics increased $40,118 to $168,284. This resulted from an increase in interest income due to a higher rate of interest earned on investments over the prior year quarter ending September 30, 2004. Other expense decreased $1,232 to $21,599, from $22,831 in the prior year period ending September 30, 2004.

NET LOSS

Consolidated net loss for the quarter increased $180,581, or 20%, to $1,063,628, or $.09 cents per share, from $883,047, or $.07 cents per share in the year ago period.

Cables & Networks had a net loss of $83,334 in the quarter, compared to income of $37,160 in the year ago quarter. The decrease was due to increased S, G, & A expenses of $181,254 and higher interest expense of $19,123, offset by in increase of $75,562 in gross margin.

Optronics recorded a net loss of $980,294, an increase of $60,087 from a loss of $920,207 from the same period of fiscal 2005. The increased losses were mainly due to start up costs incurred in its India operations. The fiscal 2006 quarter reflects reduced cost of sales from the prior year period due to cost reductions implemented, offset by increased R&D expenses related to the additional semiconductor machine and slightly increased S, G & A expenses. Achieving profitability in the future will strongly depend upon Optronic's ability to successfully manufacture and market gallium-nitride products.

SIX MONTHS ENDED SEPTEMBER 30, 2005 VS. SIX MONTHS ENDED SEPTEMBER 30, 2004

Consolidated revenues for the six months ended September 30, 2005 increased $226,144, or 3%, to $7,581,930 from $7,355,786 in 2004.

Revenues at Cables & Networks increased $271,581, or 4% to $7,566,128 from $7,294,547. Sales to broadband service provider and commercial data networks were $5,432,000 or 72% of revenue, compared to sales of $4,961,000, or 68% of revenue, in the year ago period ending September 30, 2004. Sales to OEM's were $2,134,000, or 28% of revenue, compared to sales of $2,334,000, or 32% of revenue, in the year ago period. The change reflects higher demand in the Fiber-to-the-Premise market, offset by slightly lower demand from OEM's, principally from a large customer serving the semiconductor industry.

Gross revenues at Optronics decreased $78,913, or 27%, to $212,775 from $291,688 in the same period a year ago. Gross revenues reflect $196,973 of sales to Cables & Networks for fiber optics products and subcontracted labor versus $230,449 last year. These sales are eliminated as intercompany sales in the consolidated financials in each quarter.

COST OF SALES AND GROSS PROFIT

Cables & Network's gross profit decreased $42,438, or 2%, to $2,009,185 from $2,051,623. The decrease is due mainly to higher production variances and personnel related overhead. Gross margins as a percent of revenues decreased slightly from 28% to 27%. The decrease in margin percentage is attributable to the competitive marketplace along with increased overhead support.

Gross cost of sales at Optronics decreased $369,660, or 38%, to $590,512 from $960,172. Gross cost of sales reflects $194,705 related to cost of sales to Cables & Networks for fiber optics products and subcontracted labor versus $230,449 last year. These costs are eliminated as intercompany cost of sales in the consolidated financials in each quarter. Cost of sales expenses for the six month period for all Optronics product lines consists of approximately $283,000 in personnel costs, $131,000 in depreciation and $177,000 in materials and allocated overhead. This compares to prior year personnel expenses of approximately $543,000, depreciation of $148,000 and supplies and overhead of $269,000. The overall net decrease in cost of sales is due mainly to lower personnel and material costs associated with production outsourcing efforts in the GaN area implemented in the prior year.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of the research and development expense at Optronics. There have been no research and development expenses at Cables & Networks. Expenses increased $258,502 to $670,305 from $411,803 in the prior period. The increase in the expense is due mainly to increased personnel and operating costs associated with the semiconductor machine which was installed and brought on line in November of 2004.

SELLING, GENERAL AND ADMINISTRATIVE

Consolidated S, G & A expenses increased $322,324, or 11%, to $3,147,439 from $2,825,115 in 2004.

Selling, general and administrative expenses at Cables & Networks increased $225,445, or 12%, to $2,069,732 from $1,844,287. The majority of the increase is attributable to increased personnel expenses within the sales area generated as a part of the plan to expand sales presence and grow revenue.

Selling, general and administrative expenses at Optronics increased $99,147, or 10%, to $1,079,975 from $980,828. The increase is due to additional expense related to the India operations which were acquired in March, 2005.

INCOME (LOSS) FROM OPERATIONS

Consolidated losses from operations increased $334,785, or 18%, to $2,188,564 from $1,853,779 in 2004.

The loss from operations at Cables & Networks was $60,547 versus income of $207,336 in the year ago period. The loss was mainly the result of higher selling and personnel expenses related to Cables & Networks planned investment in revenue growth.

The loss from operations at Optronics increased $66,902, or 3%, to $2,128,017, from $2,061,115. The increase is mainly due to the expenses related to the start up of the India operations.

OTHER INCOME AND EXPENSE

Consolidated other income and expense decreased $34,966 to $235,630 from $270,596.

Other expense increased at Cables & Networks by $41,986 to $176,763 for the six month period ended September 30, 2005, versus an expense of $134,777 in the year ago period, due to a higher rate of interest paid in the current six month period.

Other income at Optronics increased $4,555, or 1%, to $455,590 from $451,035. The sale of land at our Aberdeen facility and loss on disposal of other assets resulted in a gain of $93,126 in fiscal 2006. Additionally, interest income increased $108,814 in the current period due to a higher outstanding receivable due from Cables & Networks and a higher rate of interest earned versus last year. Rental income for part of our Blaine facility which is leased to the buyer of our optics operations increased approximately $11,000 in fiscal 2006 over the prior year. The sale of the optics manufacturing operations in April 2004 accounted for approximately $208,000 in other income in fiscal 2005.

NET INCOME (LOSS)

Consolidated net loss increased $368,751, or 23%, to $1,954,634, or $.16 cents per share, from $1,585,883, or $.13 cents per share in the year ago period.

Cables & Networks had a net loss of $238,510 versus net income of $70,359 in the year ago period. The loss reflects slightly decreased gross margins and increased S, G, & A expenses attributable to revenue growth plans.

Optronics recorded a net loss of $1,716,124, an increase of $59,882, or 4%, from the loss of $1,656,242 reported in the same period of fiscal 2005. The increase is due mainly to start up costs of the India operations..

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents consist primarily of money market funds, U.S. Government instruments and other government instruments with original maturities of less than three months.

Cash used in operating activities was $1,787,137 for the six month period ending September 30, 2005 compared to $945,590 used in the same period in fiscal 2004. The increase in the cash used in the current period reflects the negative impact of working capital changes in the amount of $286,640, primarily from growth in APACN's accounts receivable and inventory as a result of increased sales, an overall increase in loss from operations, and $291,125 in cash consumed for capital expenditures and start up costs related to our India operations.

We used net cash of $123,113 in investing activities for the six months ended September 30, 2005 compared to $73,909 used in the same period of the preceding fiscal year. The higher net use of cash in the current period occurred despite a decrease in capital expenditures in the amount of $59,116, and reflects proceeds from the sale of assets of $108,320 in the prior period. We anticipate approximately $300,000 to $500,000 in capital expenditures in fiscal 2006, including the building of a new facility in India.

Net cash used in financing activities for the six months ended September 30, 2005 totaled $22,435. We used $68,083 for reduction of debt and generated $45,648 from the reduction of bond reserve funds. During the same period in fiscal 2004 we used $161,956 in financing activities, of which $205,648 was used for the scheduled reduction of debt and $43,692 was generated from the reduction of bond reserve funds.

We believe we have sufficient funds for operations for at least the next twelve months.

Our contractual obligations and commitments are summarized in the table below (in 000's):

	Total	Less than 1 Year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 1,392	$ 1,366	$ 26	$ 0	$ 0
Leases	1,159	420	507	207	25
Total Contractual Cash Obligations	$ 2,551	$ 1,786	$ 533	$ 207	$ 25

APPLICATION OF CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements, we make estimates, assumptions and judgments that can have a significant impact on our revenues, loss from operations and net loss, as well as on the value of certain assets and liabilities on our consolidated balance sheet. We believe that there are several accounting policies that are critical to an understanding of our historical and future performance, as these policies affect the reported amounts of revenues, expenses and significant estimates and judgments applied by management. While there are a number of accounting policies, methods and estimates affecting our consolidated financial statements, areas that are particularly significant include:

- Accounting for income taxes; and
- Valuation and evaluating impairment of long-lived assets and goodwill
- Revenue recognition

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax liability in each of the jurisdictions in which we do business. This process involves estimating our actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We must then assess the likelihood that these deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not more likely than not or unknown, we must establish a valuation allowance.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. At March 31, 2005, we recorded a full valuation allowance of $12,167,207 against our deferred tax assets, due to uncertainties related to our ability to utilize our deferred tax assets, consisting principally of certain net operating losses carried forward. The valuation allowance is based on our estimates of taxable income by jurisdiction and the period over which our deferred tax assets will be recoverable. The Company had U.S. net operating loss (NOL) carryforwards of approximately $31,531,000 which expire in fiscal years 2006 to 2025.

Realization of the NOL carryforwards and other deferred tax temporary differences are contingent on future taxable earnings. The deferred tax asset was reviewed for expected utilization using a “more likely than not” approach by assessing the available positive and negative evidence surrounding its recoverability. We will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion thereof, to be utilized, and will reduce the valuation allowance appropriately at such time when it is determined that the “more likely than not” approach is satisfied.

We will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion thereof, to be utilized, and will reduce the valuation allowance appropriately at such time when it is determined that the “more likely than not” approach is satisfied.

Valuation and evaluating impairment of long-lived assets and goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill should not be amortized but reviewed for impairment at the fiscal year end or whenever conditions exist that indicate an impairment could exist. The Company performed the annual impairment test in fiscal years 2005 and 2004 and concluded that no impairment had occurred.

The Company evaluates the recoverability of its long-lived assets in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS 144 requires recognition of impairment of long-lived assets in the event that events or circumstances indicate an impairment may have occurred and when the net book value of such assets exceeds the future undiscounted cash flows attributed to such assets. We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. No impairment of long-lived assets has occurred through the year ended September 30, 2005.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable, acceptance by the customer is reasonably certain and collection is probable. Our warranties exist for all products sold to all customer types and are generally covered for a period of one year. We record provisions against our revenue for estimated product returns in the period the related revenue is recorded. We estimate the costs to service our warranty obligations and record them within cost of sales. These estimates are based on historical sales returns, repair activity, and expectation of future market conditions. If our actual product returns and allowances exceed our estimates, additional reductions to our recorded revenue would result.

FACTORS THAT MAY INFLUENCE FUTURE RESULTS

The statements contained in this Report on Form 10-Q that are not purely historical are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitations, statements regarding the Company’s expectations, hopes, beliefs, anticipations, commitments, intentions and strategies regarding the future. Forward-looking statements include, but are not limited to, statements contained in “Item 1. Business” and “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Report on Form 10-K for the year ended March 31, 2005. Actual results could differ from those projected in any forward-looking statements for the reasons, among others, detailed below. We believe that many of the risks detailed here are part of doing business in the industry in which we compete and will likely be present in all periods reported. The fact that certain risks are characteristic to the industry does not lessen the significance of the risk. The forward-looking statements are made as of the date of this Report as Form 10-Q and we assume no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

Our Results of Operations

Unless we generate significant revenue growth, our expenses and negative cash flow will significantly harm our financial position.

We have not been profitable since fiscal 1990. As of September 30, 2005, we had an accumulated deficit of $35.1 million. We may incur operating losses for the foreseeable future, and these losses may be substantial. Further, we may continue to incur negative operating cash flow in the future. We have funded our operations primarily through the sale of equity securities and borrowings. We have significant fixed expenses and we expect to continue to incur significant and increasing manufacturing, sales and marketing, product development and administrative expenses. As a result, we will need to generate significantly higher revenues while containing costs and operating expenses if we are to achieve profitability.

Acquisitions or investments could have an adverse affect on our business.

In March 2003, we completed the acquisition of the assets of CSP as part of our strategy to expand our product offerings, develop internal sources of components and materials, and acquire new technologies. We acquired the assets of Americable in June 2003 and integrated them with the assets of CSP. We acquired assets in India in March 2005 as part of a strategy to take advantage of lower manufacturing costs in India. We intend to continue reviewing acquisition and investment prospects. There are inherent risks associated with making acquisitions and investments including but not limited to:

- Challenges associated with integrating the operations, personnel, etc., of an acquired company;
- Potentially dilutive issuances of equity securities;
- Reduced cash balances and or increased debt and debt service costs;
- Large one-time write-offs of intangible assets;
- Risks associated with geographic or business markets different than those we are familiar with; and
- Diversion of management attention from current responsibilities.

Our Products and Introduction of New Products

We must introduce new products and product enhancements to increase revenue.

The successful operation of our business depends on our ability to anticipate market needs and develop and introduce new products and product enhancements that respond to technological changes or evolving industry standards on a timely and cost-effective basis. Our products are complex, and new products may take longer to develop than originally anticipated. These products may contain defects or have unacceptable manufacturing yields when first introduced or as new versions are released. Our products could quickly become obsolete as new technologies are introduced or as other firms introduce lower cost alternatives. We must continue to develop leading-edge products and introduce them to the commercial market quickly in order to be successful. Our failure to produce technologically competitive products in a cost-effective manner and on a timely basis will seriously harm our business, financial condition and results of operations.

Our products may infringe on the intellectual property rights of others.

Our products are sophisticated and rely on complicated manufacturing processes. We have received multiple patents on aspects of our design and manufacturing processes and we have applied for several more. Third parties may still assert claims that our products or processes infringe upon their intellectual property. Defending our interests against these claims, even if they lack merit, may be time consuming, result in expensive litigation and divert management attention from operational matters. If such a claim were successful, we could be prevented from manufacturing or selling our current products, be forced to redesign our products, or be forced to license the relevant intellectual property at a significant cost. Any of these actions could harm our business, financial condition or results of operations.

We may make additional strategic changes in our product portfolio, but our strategic changes and restructuring programs may not yield the benefits that we expect.

In connection with the downturn in the communications industry we have divested or closed product lines and businesses that either were not profitable or did not match our new strategic focus. As necessary, we may make further divestitures or closures of product lines and businesses. We may also make strategic acquisitions.

The impact of potential changes to our product portfolio and the effect of such changes on our business, operating results and financial condition, are unknown at this time. If we acquire other businesses in our areas of strategic focus, we may have difficulty assimilating these businesses and their products, services, technologies and personnel into our operations. These difficulties could disrupt our ongoing business, distract our management and workforce, increase our expenses and adversely affect our operating results and financial condition. In addition to these integration risks, if we acquire new businesses, we may not realize all of the anticipated benefits of these acquisitions, and we may not be able to retain key management, technical and sales personnel after an acquisition. Divestitures or elimination of existing businesses or product lines could also have disruptive effects and may cause us to incur material expenses.

Manufacturing and Operations

Our dependence on outside manufacturers may result in product delivery delays.

We purchase components and labor that are incorporated into our products from outside vendors. In the case of the SunUV® Personal UV Monitor, we supply components to an outside assembler who delivers the completed product. If these vendors fail to supply us with components or completed assemblies on a timely basis, or if the quality of the supplied components or completed assemblies is not acceptable, we could experience significant delays in shipping our products. Any significant interruption in the supply or support of any components or completed assemblies could seriously harm our sales and our relationships with our customers. In addition, we have increased our reliance on the use of contract manufacturers to make our products. If these contract manufacturers do not fulfill their obligations or if we do not properly manage these relationships, our existing customer relationships may suffer.

We may be required to rapidly increase our manufacturing capacity to deliver our products to our customers in a timely manner.

Manufacturing of our products is a complex and precise process. We have limited experience in rapidly increasing our manufacturing capacity or in manufacturing products at high volumes. If demand for our products increases, we will be required to hire, train and manage additional manufacturing personnel and improve our production processes in order to increase our production capacity. There are numerous risks associated with rapidly increasing capacity, including:

- Difficulties in achieving adequate yields from new manufacturing lines,
- Difficulty maintaining the precise manufacturing processes required by our products while increasing capacity,
- The inability to timely procure and install the necessary equipment, and
- Lack of availability of qualified manufacturing personnel.

If we apply our capital resources to expanding our manufacturing capacity in anticipation of increased customer orders, we run the risk that the projected increase in orders will not be realized. If anticipated levels of customer orders are not received, we will not be able to generate positive gross margins and profitability.

We are dependent upon skilled employees; if we lose the services of our key personnel our ability to execute our operating plan, and our operating results, may suffer.

Our future performance depends in part upon the continued service and contributions of key management, engineering, sales and marketing personnel, many of whom would be difficult to replace quickly. If we lose any of these key personnel, our business, operating results and financial condition could be materially adversely affected or delay the development or marketing of existing or future products. Competition for these personnel is intense and we may not be able to retain or attract such personnel. Our success will depend in part upon our ability to attract and retain additional personnel with the highly specialized expertise necessary to generate revenue and to engineer, design and support our products and services.

Markets and Market Conditions

Demand for our products is subject to significant fluctuation. Adverse market conditions in the communications equipment industry and any slowdown in the United States economy may harm our financial condition.

Demand for our products is dependent on several factors, including capital expenditures in the communications industry. Capital expenditures can be cyclical in nature and result in protracted periods of reduced demand for component parts. Similarly, periods of slow economic expansion or recession can result in periods of reduced demand for our products. Such periods of reduced demand will harm our business, financial condition and results of operations. Changes to the regulatory requirements of the telecommunications industry could also affect market conditions, which could also reduce demand for our products.

Our industry is highly competitive and subject to pricing pressure.

Competition in the communications equipment market is intense. We have experienced and anticipate experiencing increasing pricing pressures from current and future competitors as well as general pricing pressure from our customers as part of their cost containment efforts. Many of our competitors have more extensive engineering, manufacturing, marketing, financial and personnel resources than we do. As a result, these competitors may be able to respond more quickly to new or emerging technologies and changes.

Declining average selling prices for our fiber optic products will require us to reduce production costs to effectively compete and market these products.

Since the time we first introduced our fiber optic components to the marketplace we have seen the average selling price of fiber optic components decline. We expect this trend to continue. To achieve profitability in this environment we must continually decrease our costs of production. In order to reduce our production costs, we will continue to pursue one or more of the following:

- Seek lower cost suppliers of raw materials or components.
- Work to further automate our assembly process.
- Develop value-added components based on integrated optics.
- Seek offshore sources for manufacturing and assembly services.

We will also seek to form strategic alliances with companies that can supply these services. Decreases in average selling prices also require that we increase unit sales to maintain or increase our revenue. There can be no guarantee that we will achieve these objectives. Our inability to decrease production costs or increase our unit sales could seriously harm our business, financial condition and results of operations.

Our markets are characterized by rapid technological changes and evolving standards.

The markets we serve are characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. In developing our products, we have made, and will continue to make, assumptions with respect to which standards will be adopted within our industry. If the standards that are actually adopted are different from those that we have chosen to support, our products may not achieve significant market acceptance.

Conditions in global markets could affect our operations.

We have acquired facilities in India which will support design and production of our products. We also source products and labor from off shore suppliers. We expect that our foreign operations and reliance on off shore sourcing will increase in the future. As such we are subject to the risks of conducting business internationally. Those risks include but are not limited to:

- local economic and market conditions;
- political and economic instability;
- fluctuations in foreign currency exchange rates;
- tariffs and other barriers and restrictions;
- geopolitical and environmental risks; and
- changes in diplomatic or trade relationships and natural disasters.

We cannot predict whether our business operations and reliance in these markets will be affected adversely by these conditions.

Our Customers

Our sales could be negatively impacted if one or more of our key customers substantially reduce orders for our products.

If we lose a significant customer, our sales and gross margins would be negatively impacted. In addition, the loss of sales may require us to record impairment, restructuring charges or exit a particular business or product line. As of September 30, 2005, no one customer provides greater than 10% of sales for all periods presented.

Consolidation among our customers could result in our losing a customer or experiencing a slowdown as integration takes place.

It is likely that there will be increased consolidation among our customers in order for them to increase market share and achieve greater economies of scale. Consolidation is likely to impact our business as our customers focus on integrating their operations and choosing their equipment vendors. After a consolidation occurs, there can be no assurance that we will continue to supply the surviving entity.

Customer payment defaults could have an adverse effect on our financial condition and results of operations.

As a result of competitive conditions in the telecommunications market, some of our customers may experience financial difficulties. It is possible that customers from whom we expect to derive substantial revenue will default or that the level of defaults will increase. Any material payment defaults by our customers would have an adverse effect on our results of operations and financial condition.

Performance Requirements and Performance of our Products

Our products may have defects that are not detected before delivery to our customers.

Some of the Company's products are designed to be deployed in large and complex networks and must be compatible with other components of the system, both current and future. Our customers may discover errors or defects in our products only after they have been fully deployed. In addition, our products may not operate as expected over long periods of time. In the case of the SunUV® Personal UV Monitor, a consumer product, customers could encounter a latent defect not detected in the quality inspection. If we are unable to fix errors or other problems, we could lose customers, lose revenues, suffer damage to our brand and reputation, and lose our ability to attract new customers or achieve market acceptance. Each of these factors would negatively impact cash flow and would seriously harm our business, financial condition and results of operations.

Product defects could cause us to lose customers and revenue or to incur unexpected expenses.

If our products do not meet our customers' performance requirements, our customer relationships may suffer. Also, our products may contain defects. Any failure or poor performance of our products could result in:

- delayed market acceptance of our products;
- delays in product shipments;
- unexpected expenses and diversion of resources to replace defective products or identify the source of errors and correct them;
- damage to our reputation and our customer relationships;
- delayed recognition of sales or reduced sales; and
- product liability claims or other claims for damages that may be caused by any product defects or performance failures.

Intellectual Property

If we are unable to adequately protect our intellectual property, third parties may be able to use our technology, which could adversely affect our ability to compete in the market.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of the intellectual property related to our technologies and products. The patent positions of technology companies, including our patent position, are generally uncertain and involve complex legal and factual questions. We will be able to protect our intellectual property rights from unauthorized use by third parties only to the extent that our technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the U.S., and many companies have encountered significant problems in protecting and defending such rights in foreign jurisdictions. We will apply for patents covering our technologies and products as and when we deem appropriate. However, these applications may be challenged or may fail to result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patents. In addition, our patents may be challenged, invalidated or fail to provide us with any competitive advantages.

We rely on trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information and trade secrets, but these measures may not provide adequate protection. While we seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants, we cannot assure you that our proprietary information will not be disclosed, or that we can meaningfully protect our trade secrets. In addition, our competitors may independently develop substantially equivalent proprietary information or may otherwise gain access to our trade secrets.

Our business will suffer if we are unable to protect our patents or our proprietary rights.

Our success depends to a significant degree upon our ability to develop proprietary products. However, patents may not be granted on any of our pending patent applications in the United States or in other countries. In addition, the scope of any of our issued patents may not be sufficiently broad to offer meaningful protection. Furthermore, our issued patents or patents licensed to us could potentially be successfully challenged, invalidated or circumvented so that our patent rights would not create an effective competitive barrier.

Intellectual property litigation could harm our business.

It is possible that we may have to defend our intellectual property rights in the future. In the event of an intellectual property dispute, we may be forced to litigate or otherwise defend our intellectual property assets. Disputes could involve litigation or proceedings declared by the United States Patent and Trademark Office or the International Trade Commission. Intellectual property litigation can be extremely expensive, and this expense, as well as the consequences should we not prevail, could seriously harm our business.

If a third party claimed an intellectual property right to technology we use, we might be forced to discontinue an important product or product line, alter our products and processes, pay license fees or cease certain activities. We may not be able to obtain a license to such intellectual property on favorable terms, if at all.

Litigation or third party claims of intellectual property infringement could require us to spend substantial time and money and adversely affect our ability to develop and commercialize products.

Our commercial success depends in part on our ability to avoid infringing patents and proprietary rights of third parties, and not breaching any licenses that we have entered into with regard to our technologies. Other parties have filed, and in the future are likely to file, patent applications covering genes and gene fragments, techniques and methodologies relating to model systems, and products and technologies that we have developed or intend to develop. If patents covering technologies required by our operations are issued to others, we may have to rely on licenses from third parties, which may not be available on commercially reasonable terms, or at all.

Third parties may accuse us of employing their proprietary technology without authorization. In addition, third parties may obtain patents that relate to our technologies and claim that use of such technologies infringes these patents. Regardless of their merit, such claims could require us to incur substantial costs, including the diversion of management and technical personnel, in defending ourselves against any such claims or enforcing our patents. In the event that a successful claim of infringement is brought against us, we may be required to pay damages and obtain one or more licenses from third parties. We may not be able to obtain these licenses at a reasonable cost, or at all. Defense of any lawsuit or failure to obtain any of these licenses could adversely affect our ability to develop and commercialize products.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We invest in short-term securities of high credit issuers with maturities ranging from overnight up to 24 months. The average maturity of the portfolio does not exceed 12 months. The portfolio includes only marketable securities with active secondary or resale markets to ensure liquidity. We have no investments denominated in foreign country currencies and, therefore, our investments are not subject to foreign exchange risk.

ITEM 4. CONTROLS AND PROCEDURES.

(a) *Evaluation of disclosure controls and procedures*. The Company's chief executive officer and chief financial officer have concluded that as of the end of the fiscal period covered by this report the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) were effective to ensure that the information required to be disclosed by the Company in the report was gathered, analyzed and disclosed with adequate timeliness, accuracy and completeness.

(b) *Changes in internal controls*. There were no changes in the Company's internal controls over financial reporting during the fiscal period covered by this report that materially affected, or are likely to materially affect, the Company's control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

See Item 3 in Part 1 of our report on Form 10-K for the fiscal year ended March 31, 2005 for information on EIT v. APA Enterprises, Inc. This is currently scheduled for trial at the end of December 2005.

ITEMS 2 THROUGH 5. NOT APPLICABLE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

Exhibit 10.6 - Amended and Restated Change of Control Agreement with Anil K. Jain, Ph.D. dated September 15, 2005

Exhibit 10.11 - Severance Agreement with Cheri B. Podzimek dated September 15, 2005

Exhibit 31.1 - Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 - Certification required of Chief Executive Officer and Chief Financial Officer by Section 906 of the Sarbanes Oxley Act of 2002

(b) Reports on Form 8-K.

A report on Form 8-K dated August 18, 2005 reporting changes in compensation and incentive plans for executive officers

A report on Form 8-K dated September 15, 2005 reporting the company entering into an a severance and change of control agreements with executive officers

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 ENTERPRISES, INC.

11/14/05	/s/ Anil K. Jain
Date	Anil K. Jain President, Chief Executive Officer and Chief Financial Officer (Principal Executive and Principal Financial Officer)
11/14/05	/s/ Daniel Herzog
Date	Comptroller (Principal Accounting Officer)

AMENDED AND RESTATED AGREEMENT
REGARDING EMPLOYMENT/COMPENSATION
UPON CHANGE IN CONTROL

THIS AMENDED AND RESTATED AGREEMENT is entered into as of SEPTEMBER 15, 2005, by and between APA ENTERPRISES, INC., a Minnesota corporation (herein called the "Company"), and ANIL K. JAIN (herein called the "Executive").

WHEREAS, Executive has been employed by the Company for many years and is currently its President and Chief Executive Officer; and

WHEREAS, Executive is a very important and valuable employee and the Company desires to keep Executive in its service; and

WHEREAS, the Company desires to provide suitable compensation to the Executive should his employment be terminated or substantially changed as a result of a "Change in Control" as defined herein or otherwise without "Cause" as defined herein; and

WHEREAS, Executive acknowledges that this is not an employment agreement, but is solely intended to provide for employment security and compensation in the event of termination of his employment in accordance with the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto agree as follows:

1. Definitions. For the purpose of this Agreement, the following words and phrases shall have the following meanings:

(a) "Change in Control" shall mean:

(i) the consummation of any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's common stock would be converted into cash, securities, or other property, other than a merger of the Company in which the holders of the Company's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or

(ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or

(iii) approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or

(iv) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Company's outstanding stock; or

(v) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's shareholders, of each new director was approved by at least two-thirds of the directors then still in office who were directors at the beginning of the two-year period.

(b) "Cause" shall mean clear and convincing evidence of:

(i) material dishonesty by Executive involving the employer;

(ii) willful violation of any law, rule, or regulation;

(iii) failure or refusal to perform a material requirement of Executive's duties, or failure or refusal to comply with a reasonable, important general policy of the Company or its Board of Directors, after receipt by Executive of written notice specifying in detail the failure or refusal, and a reasonable time in which to perform;

(iv) breach of fiduciary duty to the employer; or

(v) Executive's (a) death or (b) disability (by reason of physical or mental disease, defect, accident or illness) such that Executive is or, in the opinion of two independent physicians, one selected by the Company and one by Executive or his representative, for purposes of making this determination, will be unable for an aggregate of 180 or more days during any continuous 12-month period to render the services required of him. In his then current position with the Company.

(c) "Competitive Activities" shall mean:

(i) directly or indirectly engaging in, continuing in, or carrying on any business which substantially competes with the business conducted by the Company;

(ii) soliciting or accepting orders for business on behalf of an entity other than the Company from any persons (whether individuals or entities) who were customers or bona fide prospects of the Company during the one-year period prior to Executive's termination of employment or inducing or attempting to induce such persons to terminate or modify their relationship with the Company for such business; or

(iii) offering, soliciting or agreeing to employ an employee of the Company, or inducing or attempting to induce such an employee to quit his or her employ with the Company, without the prior written consent of the Company; Provided, however, that the term "Competitive Activities" shall not include the ownership of securities of corporations, which are listed on a national securities exchange or quoted on a national over-the-counter market, by the Executive in an amount not exceeding 2% of the outstanding shares of any such corporation.

(d) "Date of Termination" shall mean:

(i) if Executive's employment is terminated by the Company for disability, 90 days after Notice of Termination is given to Executive (provided that Executive shall not have returned to the performance of Executive's duties on a full-time basis during such 90-day period); or

(ii) if Executive's employment is terminated by the Company for any other reason, 90 days after Notice of Termination is given; provided, however, that if within 90 days after any Notice of Termination is given to Executive by the Company Executive notifies the Company that a dispute exists concerning the termination, the Date of Termination shall be the date the dispute is finally determined, whether by mutual agreement by the parties or upon final judgment, order, or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected).

(e) "Good Reason" shall mean any of the following (without Executive's express written consent):

(i) Assignment to Executive by the Company of duties inconsistent with Executive's position, duties, responsibilities, and status with the Company immediately prior to a Change in Control of the Company, or a change in Executive's titles or offices as in effect immediately prior to a Change in Control of the Company, or any removal of Executive from or any failure to reelect or reappoint Executive to any of such positions, except in connection with the termination of his employment for disability, Retirement, or Cause or as a result of Executive's death or by Executive other than for Good Reasons;

(ii) A reduction by the Company of Executive's base salary as in effect on the date hereof or as the same may be increased from time to time during the term of this Agreement or the Company's failure to increase Executive's base salary (within 12 months of Executive's last increase in base salary) after a Change in Control of the Company in an amount which at least equals, on a percentage basis, the average percentage increase in base salary for all executive officers of the Company effected during the preceding 12 months;

(iii) Any failure by the Company to continue in effect, or to provide a comparable substitute for, any benefit plan or arrangement (including, without limitation, any profit sharing plan, executive supplemental medical plan, group life insurance plan, and medical, dental, accident, and disability plans) in which Executive is participating at the time of a Change in Control of the Company (or any other plans providing Executive with substantially similar benefits) (hereinafter referred to as "Benefit Plans"), the taking of any action by the Company that would adversely affect Executive's participation in or materially reduce Executive's benefits under any such Benefit Plan or deprive Executive of any material fringe benefit enjoyed by Executive at the time of a Change in Control of the Company;

(iv) Any failure by the Company to continue in effect, or to provide a comparable substitute for, any incentive plan or arrangement (including, without limitation, any incentive compensation plan, long-term incentive plan, bonus or contingent bonus arrangements or credits, the right to receive performance awards, or similar incentive compensation benefits) in which Executive is participating, or is eligible to participate, at the time of a Change in Control of the Company (or any other plans or arrangements providing him with substantially similar benefits) (hereinafter referred to as "Incentive Plans") or the taking of any action by the Company which would adversely affect Executive's participation in any such Incentive Plan, expressed as a percentage of his base salary, by more than ten percentage points in any fiscal year as compared to the immediately preceding fiscal year;

(v) Any failure by the Company to continue in effect, or to provide a comparable substitute for, any plan or arrangement to receive securities of the Company (including, without limitation, any stock option plan or any other plan or arrangement to receive and exercise stock options, stock appreciation rights, restricted stock, or grants thereof) in which Executive is participating, or is eligible to participate, at the time of a Change in Control of the Company (or plans or arrangements providing him with substantially similar benefits) (hereinafter referred to as "Securities Plans") or the taking of any action by the Company which would adversely affect Executive's participation in or materially reduce Executive's benefits under any such Securities Plan;

(vi) If at the time of a Change in Control of the Company Executive is employed at the Company's principal executive offices, a relocation of such principal executive offices to a location more than fifty miles outside of the Minneapolis-St. Paul Metropolitan Area or, if Executive is not employed at the Company's principal executive offices, Executive's relocation to any place other than the location at which the Executive performed Executive's duties prior to a Change in Control of the Company, except for required travel by Executive on the Company's business to an extent substantially consistent with Executive's business travel obligations at the time of a Change in Control of the Company;

(vii) Any failure by the Company to provide Executive with at least the number of paid vacation days to which the Executive is entitled at the time of a Change in Control of the Company;

(viii) Any material breach by the Company of any provision of this Agreement;

(ix) Any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company; or

(x) Any purported termination of Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 1 (f) hereof.

(f) "Notice of Termination" shall mean a written notice which shall indicate those specific termination provisions in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claiming to provide a basis for termination of Executive's employment under the provisions so indicated. Any termination by the Company pursuant to this Agreement shall be communicated by Notice of Termination. For purposes of this Agreement, no such purported termination by the Company shall be effective without such Notice of Termination.

(g) "Retirement" shall mean termination by the Company or Executive of Executive's employment based on Executive's having reached age 65 or such other age or upon such other terms as shall have been fixed in any arrangement established with Executive's consent.

2. Separate Employment Arrangements. Executive is, and shall be, employed by the Company solely upon the existing arrangements which are separate from this Agreement, as those employment arrangements hereafter may be amended by the parties. The parties expressly acknowledge and agree that this Agreement is not intended to be an employment agreement.

3. Participation in Other Executive Benefit Plans. Nothing in this Agreement shall in any manner modify, impair, or affect the existing or future rights or interests of Executive (a) to receive any employee benefits from the Company to which he would otherwise be entitled or (b) as a participant in any incentive, profit-sharing or bonus plan, stock option plan or pension plan of the Company. The rights and interests of Executive to any employee benefits or as a participant or beneficiary in or under any or all such plans shall continue in full force and effect. Executive shall have the right at any future time to become a participant or beneficiary under or pursuant to any and all such plans. Any compensation payable under this Agreement shall not be deemed salary or other compensation to Executive for purposes of any retirement plans maintained by the Company or for purposes of any other fringe benefit obligations of the Company.

4. Nonassignability of Benefits. Executive shall not transfer, assign, encumber, or otherwise dispose of his right to receive payments hereunder and, in the event of any attempted transfer or assignment, the Company shall have no further liability to Executive under this Agreement.

5. Payments and Benefits upon a Change in Control. If Executive is employed by the Company upon the occurrence of a Change in Control, the following provisions shall govern:

(a) Executive shall continue to be employed for at least thirty-six (36) months with substantially the same duties, compensation, and benefits in the same geographic location as existed just prior to the Change in Control.

(b) Executive may terminate his employment during the thirty-six (36) months following the Change in Control for Good Reason, as defined herein, and, upon such termination, shall receive from the Company in a lump sum, in cash, on the fifth (5th) day following the Date of Termination, an amount equal to two and one-half (2 1/2) times Executive's "annualized includible compensation for the base period" (as defined in Section 280G(d) of the Internal Revenue Code of 1986, as amended (the "Code")), and shall not engage in any Competitive Activities for one year following the Date of Termination.

(c) If Executive's employment is terminated within thirty-six (36) months following the Change in Control, other than for Cause as defined herein or as a result of his Retirement, disability, or death, the Executive shall receive as severance pay in a lump sum, in cash, on the fifth (5th) day following the Date of Termination, an amount equal to two and one-half (2 1/2) times Executive's "annualized includible compensation for the base period" (as defined in Section 280G(d) of the Code), and shall not engage in any Competitive Activities for one year following the Date of Termination.

(d) Executive may terminate his employment other than for Good Reason upon at least three months' notice following the Change in Control, thereby waiving any further benefits hereunder except a severance benefit of three months' salary and a prorated portion of any annual bonus, provided that Executive then agrees not to engage in any Competitive Activities for six months following the Date of Termination.

(e) If Executive terminates his employment otherwise than under any of paragraphs (b) or (d) of this Section 5, Executive shall not be entitled to any payments for any period after the end of the employment and shall not receive any severance benefit.

(f) If the Executive holds any options to purchase stock of the Company after a Change in Control, Executive shall be entitled, upon involuntary termination except for Cause during the thirty-six (36) month period, to demand payment of the current value of such options (fair market value as of the Date of Termination less the then effective exercise price).

(g) If the lump sum severance payment provided for under this Section 5, calculated as set forth above, either alone or together with other payments which Executive has the right to receive from the Company, would constitute an "excess parachute payment" (as defined in Section 280G of the Code), such lump sum severance payment shall be reduced to the largest amount as will result in no portion of the lump sum severance payment under this Section 5 being subject to the excise tax imposed by Section 4999 of the Code. The determination of any reduction in the lump sum severance payment under this Section 5(g) pursuant to the foregoing sentence shall be made by Executive in good faith, and such determination shall be conclusive and binding on the Company.

(h) In the event of termination of Executive's employment for any reason, Executive shall be entitled to continue to participate in the Company's group health plan for employees following such termination. Executive shall be responsible for payment of premiums. This benefit shall be available until Executive's death or his election not to continue such participation.

6. Payments and Benefits Without a Change in Control. In the event that Executive's employment with the Company is terminated by the Company without Cause before a Change in Control or more than 36 months after a Change in Control, Employee shall be paid any bonus accrued at the Date of Termination and continuation of his salary for 24 months, payable at the end of every 3-month period after the Date of Termination.

7. No Obligation to Mitigate Damages; No Effect on Other Contractual Rights.

(a) Executive shall not be required to mitigate damages or the amount of any payment provided for under Section 5 hereof by seeking other employment or otherwise, nor shall the amount of any payment provided for under Section 5 be reduced by any compensation earned by Executive as the result of employment by another employer after the Date of Termination, or otherwise.

(b) The provisions of Section 5, and any payment provided for thereunder, shall not reduce any amounts otherwise payable, or in any way diminish Executive's existing rights, or rights which would accrue solely as a result of the passage of time, under any Benefit Plan, Incentive Plan, Securities Plan, employment agreement, or other contract, plan, or arrangement.

8. Entire Agreement; Headings. This Agreement is the entire Agreement between the parties on its subject matter and shall be deemed to supersede any other agreements allegedly made between the parties regarding the subject matter. Without limitation of the foregoing, this Agreement amends, restates and supersedes the Agreement Regarding Employment/ Compensation Upon Change in Control dated August 20, 1997. Headings shall not be utilized in any interpretation of this Agreement.

9. Notices. Any notice or other communication provided for herein or given hereunder shall be in writing and shall be delivered in person or, in the case of the Company, to the Board of Directors, or mailed by first class registered or certified mail, postage prepaid, addressed to the Company at its registered office in the State of Minnesota and addressed to the Executive or any other person at the last known address of such person appearing on the books of the Company.

10. Amendment. This Agreement may not be changed, modified or amended except in wilting signed by both parties.

11. Waiver of Breach. The waiver by either party of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by either party.

12. Invalidity of Any Provision. The provisions of this Agreement are severable, it being the intention of the parties hereto that should any provision hereof by invalid or unenforceable, such invalidity or unenforceability of any provision shall not affect the remaining provisions hereof, but the same shall remain in full force and effect as if such invalid or unenforceable provision or provisions were omitted.

13. Resolution of Disputes. Any dispute or claim arising out of this Agreement, or breach thereof, shall be decided by arbitration, under the commercial arbitration rules of the American Arbitration Association (the "AAA"), and shall be conducted in the Minneapolis, Minnesota metropolitan area. Demand for arbitration hereunder may be made by either party hereto upon written notification to the other party. The arbitration shall be by a single arbitrator mutually selected by Executive and the Company. If the parties do not agree upon an arbitrator within 20 days after the date of a demand for arbitration, the selection of the single arbitrator shall be made in accordance with the rules of the AAA. This agreement to arbitrate shall be specifically enforceable. Any decision rendered by the arbitrator shall be final and binding, and judgment may be entered upon it by any court having jurisdiction. The arbitrator shall assess arbitration fees, expenses, attorneys' fees, and compensation in accordance with the applicable AAA rules. Nothing herein contained shall bar either party from seeking equitable remedies in a court of appropriate jurisdiction.

14. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the Company, its successors and assigns, and Executive, his heirs, legal representatives and assigns.

15. Governing Law. This Agreement is being delivered and is intended to be performed in the State of Minnesota and shall be construed and enforced in accordance with the laws of such state.

16. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

APA ENTERPRISES, INC.

By: Jack Reddan
Its: Director

EXECUTIVE:

/s/ Anil K. Jain
Anil K. Jain

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT ("Agreement") is entered into by and between Cheri B. Podzimek ("Employee") and APA Enterprises, Inc. ("APA") and its wholly-owned subsidiary, APA Cables and Networks, Inc. ("APACN").

BACKGROUND

Employee is currently an employee at will of APACN and serves as its President.

AGREEMENT

1. Separation from Employment as a Result of Change of Control of APACN. If there is a Change of Control (as defined below) of APA, or if APA sells all or substantially all of the assets or stock of APACN (a "Subsidiary Sale") and within six months after the Change of Control of APA or within six months after the closing of the Subsidiary Sale Employee's employment with APACN is involuntarily terminated for any reason other than Cause (as defined below) or Employee voluntarily terminates her employment for Good Reason (as defined below), she shall be entitled to payment of any bonus accrued at the time of termination and to continuation of her salary then in effect for the number of months set forth below, payable on the payroll schedule then in effect at APA, provided that if the termination follows a Subsidiary Sale "bonus" and "salary then in effect" shall refer to such amounts as of the date immediately preceding the Subsidiary Sale:

Termination After	Number of Months of Pay
June 30, 2005	9 months
June 30, 2007	12 months

2. Salary Continuation in the Event of Termination Without Cause. Inthe event that Employee's employment with APACN is involuntarily terminated for a reason other than Cause in the absence of a Change of Control of APA or a Subsidiary Sale, she shall receive any bonus accrued at the date of termination and continuation of her salary then in effect for the number of months set forth below, payable on the salary schedule as then in effect at APACN.

Termination After	Number of Months of Pay
June 30, 2005	3 months
June 30, 2007	6 months
June 30, 2009	12 months

3. Benefits. In the event of termination of Employee as described in Section 1 or Section 2 above, APA shall provide Employee the option to continue coverage under APA's group life, health and dental benefits, if any, at a level comparable to the benefits which Employee was receiving or entitled to receive immediately prior to termination, subject to the terms and conditions of APA's insurance or other plan then in effect, but only if such continuation is at no cost to APA or APACN. Employee, at her sole expense, shall be entitled to such continued coverage for the maximum period required by applicable federal and state laws following termination of employment or, if earlier, until Employee is eligible for medical coverage through her employment with another employer.

4. No Employment Agreement. This Agreement is not intended to create any agreement of employment for any period of time or to alter the "at will" status of Employee's employment with APACN in any manner.

5. Cause. A termination of employment shall be for "Cause" only if it is based in whole or in part on:

(i) material dishonesty by Employee involving APA or APACN;

(ii) willful violation of any law, rule, or regulation;

(iii) failure or refusal to perform a material requirement of Employee's duties, or failure or refusal to comply with a reasonable, important general policy of APA or APACN or APA's Board of Directors after receipt by Employee of written notice specifying in detail the failure or refusal and a reasonable time in which to perform;

(iv) breach of fiduciary duty to APA or APACN; or

(v) Employee's (a) death or (b) disability (by reason of physical or mental disease, defect, accident or illness) such that Employee is (or in the opinion of two independent physicians, one selected by APA and one by Employee or her representative, for purposes of making this determination) will be unable for an aggregate of 180 or more days during any continuous 12-month period to render the services required of her in Employee's then current position with APACN.

6. Change of Control. A Change of Control has occurred if there has been:

(i) the consummation of any consolidation or merger of APA in which APA is not the continuing or surviving corporation or pursuant to which shares of APA's common stock would be converted into cash, securities, or other property, other than a merger of APA in which the holders of APA's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or

(ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of APA; or

(iii) approval by the shareholders of APA of any plan or proposal for the liquidation or dissolution of APA; or

(iv) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of APA's outstanding stock; or

(v) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors of APA shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by APA's shareholders, of each new director was approved by at least two-thirds of the directors then still in office who were directors at the beginning of the two-year period.

7. Good Reason. "Good Reason" shall mean any of the following (without Employee's express written consent):

(i) Assignment to Employee by the Company of duties inconsistent with Employee's position, duties, responsibilities, and status with the Company immediately prior to a Change in Control or a Subsidiary Sale, or a change in Employee's titles or offices as in effect immediately prior to a Change in Control or a Subsidiary Sale, or her removal from or any failure to reelect or reappoint her to any of such positions, except in connection with the termination of her employment for disability or Cause or as a result of her death or by her other than for Good Reason;

(ii) A reduction by the Company of Employee's base salary and bonus as in effect on the date hereof or as the same may be increased from time to time during the term of this Agreement;

(iii) If at the time of a Change in Control or a Subsidiary Sale Employee is employed at APACN's principal executive offices, a relocation of such principal executive offices to a location more than fifty miles outside of the Minneapolis-St. Paul Metropolitan Area or, if Employee is not employed at APACN's principal executive offices, Employee's relocation to any place other than the location at which the Employee performed Employee's duties prior to a Change in Control or a Subsidiary Sale, except for required travel by Employee on the Company's business to an extent substantially consistent with Employee's business travel obligations at the time of a Change in Control or a Subsidiary Sale;

(iv) Any material breach by the Company of any provision of this Agreement; or

(v) Any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company.

8. General Release. The benefits set forth herein shall be payable to Employee only if Employee executes prior to the first payment of the salary continuation, and in any event within 45 days after termination of employment, a general release of all claims against APA and APACN, known and unknown, in form and substance satisfactory to APA.

9. Governing Law. This Agreement shall be governed by and construed and enforced pursuant to the laws of the State of Minnesota applicable to contracts made and entirely to be performed in that state.

10. Forfeiture. If after termination of employment Employee violates any continuing obligation to APA or APACN, such as an obligation to not compete, to assign invention, or to maintain the confidentiality of information, then the benefits set forth herein shall terminate upon the date of such violation and all unpaid benefits shall be irrevocably forfeited.

11. Notice. Employee agrees that she shall provide APA and APACN with not less than 30 days' advance notice of voluntary termination of employment by her and that she will be available for consultation on transition matters for a period of 60 days after the expiration of the 30-day notice period. Employee acknowledges that she will not be entitled to any severance payment or bonus upon voluntary termination. Employee acknowledges that failure to provide the required advance notice or to be available for consultation, as stated above, could result in injury to APA and APACN not easily quantifiable in money damages and that this covenant shall be specifically enforceable.

APA ENTERPRISES, INC.

By: /s/ Anil K. Jain
Its: President

APA CABLES AND NETWORKS, INC.

By: /s/ Anil K. Jain
Its: CEO

/s/ Cheri B. Podzimek
Cheri B. Podzimek

Exhibit 31.1

CERTIFICATION

I, Anil K. Jain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of APA Enterprises, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly represent in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. APA Enterprises, Inc.'s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a and 15(e)) for APA Enterprises, Inc. and we have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to APA Enterprises, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of our disclosure controls and procedures as of a date and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on our evaluation.

   c) Disclosed in this report any change in APA Enterprises, Inc.'s internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's control over financial reporting.

5. APA Enterprises, Inc.'s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to our auditors and the audit committee of our board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect APA Enterprises, Inc.'s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

November 14, 2005

Signature: /s/ Anil K. Jain
Print Name: Anil K. Jain
Print Title: Chief Executive Officer and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of APA Enterprises, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anil K. Jain, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

November 14, 2005

Signature: /s/ Anil K. Jain
Print Name: Anil K. Jain
Print Title: Chief Executive Officer and Chief Financial Officer