

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 1995 or

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

For the transition period from _____ to _____

Commission File Number 0-16106

APA OPTICS, INC.

(exact name of small business issuer as specified in its charter)

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

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

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

Indicate whether the issuer (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 issuer was required to file such reports), and (2) has been subject to the filing requirement for the past 90 days.

Yes X No

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

Class:	Outstanding at September 30, 1995
Common stock, par value \$.01	7,986,007

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PART 1, FINANCIAL INFORMATION

ITEM 1, FINANCIAL STATEMENTS

APA OPTICS, INC.
 CONDENSED BALANCE SHEETS

<TABLE>

<CAPTION>

ASSETS	September 30 1995 (Unaudited)	March 31 1995 (Audited) *
CURRENT ASSETS:	(Unaudited)	(Audited) *
<S>	<C>	<C>
Cash and short-term investments	\$1,924,854	\$401,034
Accounts receivable	782,965	421,943
Inventories:		
Raw Materials	25,206	61,791
Work-in-process & finished goods	162,314	146,414
Prepaid expenses	15,200	31,225
Bond reserve funds	16,667	63,333
TOTAL CURRENT ASSETS	2,927,206	1,125,740
PROPERTY AND EQUIPMENT, NET	1,332,632	1,492,282
OTHER ASSETS	478,613	445,075
	\$ 4,738,451	\$ 3,063,097

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	\$ 100,000	\$ 95,000
Accounts payable	89,777	97,584
Accrued expenses	(7,772)	40,476
TOTAL CURRENT LIABILITIES	182,005	233,060

LONG TERM DEBT	345,000	445,000
SHAREHOLDERS' EQUITY		
Undesignated shares; 5,000,000 shares authorized; none issued	---	---
Common stock, \$.01 par value; 15,000,000 shares authorized; 7,986,007 & 7,376,923 issued	79,860	73,769
Paid-in-capital	6,944,302	5,122,292
Retained earnings (deficit)	(2,812,716)	(2,811,024)
	4,211,446	2,385,037
	\$ 4,738,451	\$ 3,063,097

* Derived from audited financial statements

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

<TABLE>

<CAPTION>

	Three months ended		Six months ended	
	September 30		September 30	
	1995	1994	1995	1994
<S>	<C>	<C>	<C>	<C>
REVENUES	\$ 682,828	\$ 445,679	\$ 1,274,845	\$ 895,901
COSTS AND EXPENSES:				
Cost of sales and services	547,409	360,701	992,735	682,046
Selling, general & administrative	126,732	144,890	279,359	274,178
Research & development	---	66,551	2,467	164,226
	674,141	572,142	1,274,561	1,120,450
Gain/Loss from Operations	8,687	(126,463)	284	(224,549)
INTEREST INCOME & EXPENSE:				
Interest Income	15,465	3,021	17,910	4,548
Interest Expense	(9,107)	(10,793)	(19,386)	(22,612)
	6,358	(7,772)	(1,476)	(18,064)
INCOME (LOSS) BEFORE INCOME TAXES	15,045	(134,235)	(1,192)	(242,613)
INCOME TAX EXPENSE (BENEFIT)	250	---	500	250
NET INCOME (LOSS)	\$ 14,795	\$ (134,235)	\$ (1,692)	\$ (242,863)
EARNINGS (LOSS) PER COMMON & COMMON EQUIVALENT SHARE (EXHIBIT 11)				
	\$.00	\$ (.02)	\$ (.00)	\$ (.03)
WEIGHTED AVERAGE SHARES OUTSTANDING				
	7,623,839	7,276,010	7,482,477	7,275,469

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APA OPTICS, INC.
STATEMENT OF CASH FLOWS
(UNAUDITED)

<TABLE>

<CAPTION>

	Six Months Ended	
	September 30	
	1995	1994
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net Income (loss)	\$ (1,692)	\$ (242,863)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	215,689	219,131
Changes in operating assets and liabilities:		

(Increase) decrease in accounts receivable	(361,021)	29,603
(Increase) decrease in inventories and prepaid expenses	83,375	(45,956)
Increase (decrease) in accounts payable and accrued expenses	(56,055)	(40,150)
Other	(57,538)	(31,008)
Net cash provided by (used in) operating activities	(177,242)	(111,243)
INVESTING ACTIVITIES		
Purchases of property and equipment	(32,039)	* 81,555
Net cash provided by (used in) investing activities	(32,039)	81,555
FINANCING ACTIVITIES		
Proceeds from sale of common stock	1,828,101	260,000
Repayment of long-term debt	(95,000)	(85,000)
Net cash provided by financing activities	1,733,101	175,000
Increase (decrease) in cash	1,523,820	145,312
Cash at Beginning of Period	401,034	274,204
Cash at End of Period	\$1,924,854	\$ 419,516

NOTE TO CONDENSED FINANCIAL STATEMENTS

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

* Includes \$125,000 from the sale of used equipment.

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

Results of Operations:

Revenues for the second quarter of fiscal 1996 ended September 30, 1995 were \$682,828, an increase of 53% from the second quarter of fiscal 1995 ended September 30, 1994. The second quarter revenues of fiscal 1996 are also up 15% as compared to the first quarter of fiscal 1996. While production revenues decreased by \$192,382 during the first two quarters of fiscal year 1996 as compared to the first two quarters of fiscal 1995, contract revenues increased by \$571,326 resulting in an overall increase in revenues of \$378,944 for the first two quarters of fiscal 1996. This shift is consistent with the Company's overall plans to focus upon production and marketing of products based upon its research and development activities. The increased contract revenues also resulted in reducing the Company's paid internal research and development expenses to \$2,467 during the first two quarters of fiscal year 1996 from \$164,226 for the first two quarters of fiscal year 1995.

The substantial increase in government contract revenues for the first two quarters of fiscal 1996 as compared to the first two quarters of fiscal 1995 is a result of the Company's efforts in winning new government contracts in fiscal 1995. The Company's backlog of unfinished government contracts is approximately \$3.2 million.

For the second quarter of fiscal 1996, the Company is reporting a profit of \$14,795 after writing off raw materials associated with the Interferometer for aspheric testing (IAT). The Company decided to write off these materials due to lack of revenues from these products. The \$14,795 profit for the second quarter of fiscal 1996, compares to a net loss of (\$134,235) for the second quarter of fiscal 1995. This improvement is mainly due to significant reduction in company paid research and development expenses and increased contract revenues. The quarters results mark the first profitable quarter for the Company in the past five years. The Company anticipates it will continue to show a profit next quarter.

Liquidity and Capital Resources:

The Company's cash balance at September 30, 1995 is \$1,924,854. The Company's current ratio is over sixteen to one. The receivables are up this quarter end, due to delays in receiving government payments due to the government's year end. These payments will be received during the third quarter. The Company raised approximately \$1.8 million in a private placement of 600,000 shares of the Company's common stock. These funds will be used to supplement the \$6.5 million of assistance from the State of South Dakota and the city of Aberdeen for the construction of a new optoelectronic product manufacturing facility in Aberdeen, South Dakota.

PART II. OTHER INFORMATION

ITEMS 1 - 5. Not Applicable.

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

(a) Exhibit 11: Statement RE: Computation of per share earnings.

(b) Exhibit 27: Financial Data Schedules

There were no reports on Form 8-K filed during the three months ended September 30, 1995.

Signatures

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

October 26, 1995

s/s Anil K. Jain

Date

Anil K. Jain
President
Principal Executive Officer
Treasurer & Principal Financial
Officer

October 26, 1995

s/s Randal J. Becker

Date

Randal J. Becker
Principal Accounting Officer

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<S>	<C>
<PERIOD-TYPE>	6-MOS
<FISCAL-YEAR-END>	MAR-1-1996
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</TABLE>

EXHIBIT 11

APA OPTICS, INC.

<TABLE>
<CAPTION>Statement RE: Computation
of Per Share Earnings

	Three months ended		Six months ended	
	Septmeber 30		September 30	
	1995	1994	1995	1994
<S>	<C>	<C>	<C>	<C>
Average common shares outstanding	7,583,161	7,276,010	7,482,477	7,275,469
Dilutive stock options and warrants (A)	40,678	0	0	0
Total	7,623,839	7,276,010	7,482,477	7,275,469
Net income (loss)	\$ 14,795	\$(134,235)	\$ (1,692)	\$(242,863)
Per share amount	\$.00	\$ (.02)	\$ (.00)	\$ (.03)

(A) Calculated using the "treasury stock" method.
</TABLE>