

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 December 31, 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 December 31, 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	December 31 1995	March 31 1995
<S>	<C>	<C>
CURRENT ASSETS:	(Unaudited)	(Audited)*
Cash and short-term investments	\$2,167,855	\$ 401,034
Accounts receivable	484,952	421,943
Inventories:		
Raw Materials	24,244	61,791
Work-in-process & finished goods	199,253	146,414
Prepaid expenses	35,977	31,225
Bond reserve funds	41,667	63,333
TOTAL CURRENT ASSETS	2,953,948	1,125,740
PROPERTY AND EQUIPMENT, NET	1,238,461	1,492,282
OTHER ASSETS	603,609	445,075
	\$ 4,796,018	\$ 3,063,097
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	\$ 100,000	\$ 95,000
Accounts payable	42,065	97,584
Accrued expenses	80,723	40,476
TOTAL CURRENT LIABILITIES	222,788	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	6,927,192	5,122,292
Retained earnings (deficit)	(2,778,822)	(2,811,024)
	4,228,230	2,385,037
	\$ 4,796,018	\$ 3,063,097

</TABLE>

* Derived from audited financial statements

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

<TABLE>

<CAPTION>

	Three months ended December 31		Nine months ended December 31	
	1995	1994	1995	1994
<S>	<C>		<C>	
REVENUES	\$ 592,018	\$ 568,971	\$ 1,866,863	\$ 1,464,872
COSTS AND EXPENSES:				
Cost of sales and services	456,282	488,124	1,449,017	1,170,170
Selling, general & administrative	112,774	117,879	392,133	392,057
Research & development	0	19,688	2,467	183,914
	569,056	625,691	1,843,617	1,746,141
Gain/Loss from Operations	22,962	(56,720)	23,246	(281,269)
INTEREST INCOME & EXPENSE:				
Interest Income	19,703	5,467	37,613	10,015
Interest Expense	(8,521)	(10,279)	(27,907)	(32,891)
	11,182	(4,812)	9,706	(22,876)
INCOME (LOSS)				
BEFORE INCOME TAXES	34,144	(61,532)	32,952	(304,145)
INCOME TAX EXPENSE (BENEFIT)	250	500	750	750
NET INCOME (LOSS)	\$ 33,894	\$ (62,032)	\$ 32,202	\$ (304,895)
EARNINGS (LOSS) PER COMMON & COMMON EQUIVALENT SHARE (EXHIBIT 11)				
	\$.00	\$ (.01)	\$.00	\$ (.04)
WEIGHTED AVERAGE SHARES OUTSTANDING				
	8,029,569	7,376,575	7,651,545	7,309,294

</TABLE>

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

<TABLE>

<CAPTION>

	Nine Months Ended December 31	
	1995	1994
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net Income (loss)	\$ 32,202	\$ (304,895)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	303,708	330,168
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(63,009)	(102,270)

(Increase) decrease in inventories and prepaid expenses	1,622	(30,282)
Increase (decrease) in accounts payable and accrued expenses	(15,271)	(94,492)
Other	(194,534)	(47,715)
Net cash provided by (used in) operating activities	64,718	(249,486)
INVESTING ACTIVITIES		
Purchases of property and equipment	(13,888)	* 54,629
Net cash provided by (used in) investing activities	(13,888)	54,629
FINANCING ACTIVITIES		
Proceeds from the sale of common stock	1,810,991	242,920
Repayment of long-term debt	(95,000)	(85,000)
Net cash provided by (used in) financing activities	1,715,991	157,920
Increase (decrease) in cash	1,766,821	(36,937)
Cash at Beginning of Period	401,034	274,204
Cash at End of Period	\$2,167,855	\$ 237,267

</TABLE>

NOTE TO CONDENSED FINANCIAL STATEMENTS

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

* 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:

Both revenues and profits improved for the third quarter of fiscal 1996 ended December 31, 1995 as compared to the third quarter of fiscal 1995.

Revenues for the third quarter of fiscal 1996 increased 4% as compared to the third quarter of fiscal 1995. Revenues for the third quarter were, however, 13% lower as compared to the revenues for the second quarter of 1996 due mainly to: i) annual shut down during the year end holidays and ii) delays in billing on a government contract due to delays in funding authorization. The profits for the third quarter of fiscal 1996 increased 129% as compared to the profits for second quarter of fiscal 1996, despite the reduction in revenues.

Revenues of \$1,866,863 for the first nine months of fiscal 1996 are 27% higher than the revenues of \$1,464,872 for the same period of fiscal 1995, due mainly to increase in contract revenues. Whereas the contract revenues increased by \$635,109, the Company experienced a reduction in production revenues of \$233,117 during the first nine months of fiscal 1996 as compared to the same period of fiscal 1995. The Company continues to work towards its goal of improving production revenues by manufacturing and marketing of products based on its own technology.

The Company is reporting a net profit of \$33,894 for the third quarter of fiscal 1996 as compared to a net loss of (\$62,032) for the third quarter of fiscal 1995. For the first nine months of fiscal 1996 the Company is reporting a profit of \$32,202 as compared to losses of (\$304,895) for the first nine months of fiscal 1995. The high cash balance has contributed to the Company's profit, through interest income. The Company's backlog of uncompleted contracts continues to improve, approximately \$4.6 million at December 31, 1995. The Company continues to win new government contracts. Also, development continues on the new product to be manufactured in our planned Aberdeen facility.

Liquidity and Capital Resources:

The Company's cash balance at December 31, 1995 is \$2,167,855. The Company's current ratio is over thirteen to one. The Company raised approximately \$1.8 million in a private placement of 600,000 shares of the Company's common stock late in the second quarter of fiscal 1996. These funds will be used to supplement the \$6.5 million of assistance from the State of South

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 December 31, 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.

APA OPTICS, INC.

2/07/96

s/s Anil K. Jain

Date

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

2/07/96

s/s Randal J. Becker

Date

Randal J. Becker
Principal Accounting Officer

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</TABLE>

EXHIBIT 11

APA OPTICS, INC.

<TABLE>
<Caption>

Statement RE: Computation
of Per Share Earnings

	Three months ended December 31		Nine months ended December 31	
	1995	1994	1995	1994
<S>	<C>		<C>	
Average common shares outstanding	7,986,007	7,376,575	7,651,545	7,309,294
Dilutive stock options and warrants (A)	43,562	0	0	0
Total	8,029,569	7,376,575	7,651,545	7,309,294
Net income (loss)	\$ 33,894	\$ (62,032)	\$ 32,202	\$ (304,895)
Per share amount	\$.00	\$ (.01)	\$.00	\$ (.04)

</TABLE>

(A) Calculated using the "treasury stock" method.