

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 June 30, 1997 or

Transition report pursuant to Section 13 or 15(d) of the
Securities Exchange Act 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 June 30, 1997
Common stock, par value \$.01
8,307,124

PART 1, FINANCIAL INFORMATION

ITEM 1, FINANCIAL STATEMENTS

APA OPTICS, INC.
CONDENSED BALANCE SHEETS

ASSETS	June 30	March
	1997	31 1997
CURRENT ASSETS:	(Unaudited)	(Audited)
Cash and short-term investments	\$3,432,773	*

		\$3,875,205
Accounts receivable	450,302	355,981
Inventories:		
Raw materials	18,639	15,666
Work-in-process & finished goods	137,188	132,697
Prepaid expenses	17,932	27,408
Bond reserve funds	105,417	70,000
TOTAL CURRENT ASSETS	4,162,251	4,476,957
PROPERTY AND EQUIPMENT NET	2,423,886	2,107,755
OTHER ASSETS	2,792,465	2,834,686
	\$9,378,602	\$9,419,398
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 158,021	\$ 158,021
Accounts payable	91,098	59,210
Accrued expenses	117,896	118,216
TOTAL CURRENT LIABILITIES	367,015	335,447
LONG-TERM DEBT	3,658,803	3,670,983
SHAREHOLDERS' EQUITY		
Undesignated shares; 5,000,000 shares authorized; none issued	---	---
Common stock, \$.01 par value; 15,000,000 shares authorized; 8,307,124 & 8,306,624 issued	83,071	83,066
Paid-in capital	8,213,168	8,244,423
Retained earnings (deficit)	(2,943,455)	(2,914,521)
	5,352,784	5,412,968
	\$9,378,602	\$9,419,398

*Derived from audited financial statements

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

Three months ended
June 30

	1997	1996
REVENUES	\$ 661,640	\$ 538,388
COSTS AND EXPENSES:		
Cost of sales and services	534,059	356,740

Selling general & administrative	122,059	149,226
Research & development	58,429	108,356
	714,547	614,322
Gain/Loss from Operations:	(52,907)	(75,934)
INTEREST INCOME & EXPENSE:		
Interest Income	70,128	21,188
Interest Expense	(45,856)	(8,521)
	24,272	12,667
INCOME (LOSS)		
BEFORE INCOME TAXES	(28,635)	(63,267)
INCOME TAX EXPENSE	300	250
NET INCOME (LOSS)	\$ (28,935)	\$ (63,517)
EARNINGS (LOSS) PER COMMON & COMMON EQUIVALENT SHARE	\$ (.00)	\$ (.01)
WEIGHTED AVERAGE SHARES OUTSTANDING	8,306,932	8,000,784

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

Three Months Ended

June

	1997	1996
OPERATING ACTIVITIES		
Net income (loss)	\$ (28,935)	\$ (63,517)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103,529	109,294
Changes in operating assets and liabilities:		
Accounts receivable	(94,321)	22,255
Inventories and prepaid expenses	(33,405)	(65,472)
Accounts payable and accrued expenses	31,568	(1,322)
Other	(1,543)	24,028
Net cash provided by (used in) operating activities	(23,107)	25,266
INVESTING ACTIVITIES		
(Purchases) Sales of property and equipment	(395,660)	(248,773)
Net cash (used in) investing activities	(395,660)	(248,773)
FINANCING ACTIVITIES		
Proceeds from the sale of common stock	625	527,077
Long-term debt proceeds		

Repayment of Long Term Debt	---	3,659,362
	(12,180)	---
Bond placement costs	---	(277,182)
Bond reserve funds	(12,110)	(2,112,139)
Net cash provided by (used in) financing activities	(23,665)	1,797,118
Increase (decrease) in cash	(442,432)	1,573,611
Cash at Beginning of Period		2,256,309
	3,875,205	
Cash at End of Period	\$	\$3,829,920
	3,432,773	
Supplemental schedule of non-cash transactions:		
Land and corresponding deferred revenue	\$	\$ 250,000
	250,000	

NOTE TO CONDENSED FINANCIAL STATEMENTS

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

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

Results of Operations:

Revenues for the first quarter of fiscal 1998 ended June 30, 1997 were \$661,640, an increase of 23% from the first quarter of fiscal 1997 ended June 30, 1996. The increase in revenues can be attributed to government contracts work. Government contract revenues have increased after hiring additional research scientists in fiscal 1997. Production revenues are lower the first quarter of fiscal 1998 as compared to the first quarter of fiscal 1997.

For the first quarter of fiscal 1998, the Company is reporting a net loss of \$28,935 as compared to a net loss of \$63,517 in the first quarter of fiscal 1997. The Company's gross profit margin decreased to 19% for the first three months of fiscal 1998 from 34% for the first three months of fiscal 1997. The decrease in the gross profit margin is attributed to extra burden costs associated with the Aberdeen facility. At this time the Company is hiring people and purchasing equipment for the facility. The Company anticipates beginning production by the end of September 1997. Research and development costs have decreased to \$58,429 for the first three months of fiscal 1998 from \$108,356 for the first three months of fiscal 1997. The Company plans to continue to incur IR&D costs attributed to further development of the WDM receiver.

Liquidity and Capital Resources:

The Company's cash balance at June 30, 1997 is \$3,432,773 compared to \$3,875,205 at March 31, 1997. The Company's account receivable balance has increased to \$450,302 at June 30, 1997 compared to \$355,981 at March 31, 1997, primarily due to a slight delay in payment on government contracts. These payments were received early in the second quarter of fiscal 1998. The cash decrease can be attributed to payments on the building in Aberdeen, SD and purchases of equipment for the facility. The Company's cash balance will increase in the second quarter of fiscal 1998 following a draw on the South Dakota Bond funds, which will likely be paid out. in August of 1997. The Bond will reimburse the Company approximately \$1.6 million spent for

the facility using the Company's cash reserves. The debt has been on the Company's books for about one year, and the offsetting asset is on the balance sheet under "other assets".

Forward-looking statements contained herein are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Certain important factors, such as changes in production costs and construction delays, could cause results to differ materially from those anticipated by some of the statements contained in this report. Investors are cautioned that all forward-looking statements involve risks and uncertainty.

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PART II. OTHER INFORMATION

ITEM 1 . Not Applicable.

ITEM 2.

(a.) Effective May 15, 1997, the Issuer extended the term of 300,000 outstanding Warrants due to expire on May 31, 1997, to November 30, 1997.

(c.) On May 6, 1997, the Company issued 1,000 shares of Common Stock to a director upon exercise of an outstanding option. The exercise price of the option was \$3.50 per share, paid by \$625.00 in cash and \$2,875.00 by tendering to the Issuer 500 shares of Common Stock valued at \$5.75 per share. No underwriter or selling agent was used and no discounts or commissions were paid. The Issuer claims exemption for this transaction under Section 4(2) of the Securities Act of 1933 as a transaction not involving a public offering.

ITEMS 3 - 5. Not Applicable

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

(a) Exhibit 27: Financial Data Schedules

(b) There were no reports on Form 8-K filed during the three months ended June 30, 1997.

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.
8/05/97
/s/ Anil K. Jain

Date

Anil K. Jain

President

Principal Executive Officer

Treasurer & Principal Financial

Officer

8/05/97
/s/ Randal J. Becker

Date

Randal J. Becker

Principal Accounting Officer

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