

APA Enterprises, Inc.
Form 10-Q
August 10, 2006

**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
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

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

(State or other jurisdiction of incorporation or organization)

41-1347235

(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 a large accelerated filer, and accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Edgar Filing: APA Enterprises, Inc. - Form 10-Q

date:

Class:
Common stock, par value \$.01

Outstanding at August 2, 2006
11,872,331

APA ENTERPRISES, INC.
FORM 10-Q
TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS</u>	3
<u>CONSOLIDATED CONDENSED BALANCE SHEETS</u>	3
<u>CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS</u>	4
<u>CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS</u>	5
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	10
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u>	15
<u>ITEM 4. CONTROLS AND PROCEDURES.</u>	15
<u>PART II</u>	16
<u>ITEM 1. LEGAL PROCEEDINGS</u>	16
<u>ITEM 1A. RISK FACTORS</u>	16
<u>ITEMS 2 THROUGH 5. NOT APPLICABLE</u>	17
<u>ITEM 6. EXHIBITS</u>	17

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

	June 30, 2006	March 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,143,946	\$ 8,947,777
Accounts receivable, net of allowance for uncollectible accounts of \$75,529 at June 30, 2006 and \$77,831 at March 31, 2006	2,104,804	1,892,483
Inventories	2,073,806	1,836,843
Prepaid expenses and other	171,492	299,425
Total current assets	12,494,048	12,976,528
Property, plant and equipment, net	2,644,810	2,623,412
Other assets:		
Bond reserve funds	339,154	343,241
Goodwill	3,422,511	3,422,511
Other	249,621	227,879
	4,011,286	3,993,631
Total assets	\$ 19,150,144	\$ 19,593,571
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 1,256,678	\$ 1,342,481
Accounts payable	1,350,776	1,353,828
Accrued compensation	620,869	815,046
Accrued expenses	150,442	211,840
Total current liabilities	3,378,765	3,723,195
Long-term debt, net of current maturities	14,796	18,480
Deferred income taxes	288,634	272,454
Total liabilities	3,682,195	4,014,129
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 June 30, 2006 and March 31, 2006	118,723	118,723
Additional paid-in capital	51,987,991	51,968,366

Edgar Filing: APA Enterprises, Inc. - Form 10-Q

Accumulated foreign currency translation	(21,253)	(2,153)
Accumulated deficit	(36,617,512)	(36,505,494)
Total shareholders' equity	15,467,949	15,579,442
Total liabilities and shareholders' equity	\$ 19,150,144	\$ 19,593,571

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

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

	Three Months Ended June 30,	
	2006	2005
Revenues	\$ 5,025,917	\$ 3,512,563
Cost of sales	3,695,930	2,787,453
Gross profit	1,329,987	725,110
Operating expenses		
Research and development	153,787	323,598
Selling, general and administrative	1,713,003	1,470,408
Gain on disposal of asset	(345,000)	(109,935)
	1,521,790	1,684,071
Loss from operations	(191,803)	(958,961)
Other income	119,379	91,787
Other expense	(20,614)	(22,882)
	98,765	68,905
Loss before income taxes	(93,038)	(890,056)
Income taxes	18,980	950
Net loss	\$ (112,018)	\$ (891,006)
Net loss per share:		
Basic and diluted	\$ (0.01)	\$ (0.08)
Weighted average shares outstanding:		
Basic and diluted	11,872,331	11,872,331

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

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

	Three Months Ended June 30,	
	2006	2005
Cash Flow from operating activities		
Net loss	\$ (112,018)	\$ (891,006)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	154,416	269,847
Deferred taxes	16,180	-
Gain on sale of assets	(345,000)	(109,935)
Stock based compensation	19,625	3,199
Foreign currency translation	(19,100)	1,342
Changes in operating assets and liabilities:		
Accounts receivable, net	(212,321)	(2,923)
Inventories	(236,963)	(110,977)
Prepaid expenses and other	24,655	44,130
Accounts payable and accrued expenses	(258,627)	161,503
Net cash used in operating activities	(969,153)	(634,820)
Cash flow from investing activities		
Purchases of property and equipment	(175,814)	(121,259)
Proceeds from sale of assets	345,000	1,500
Net cash provided by (used in) investing activities	169,186	(119,759)
Cash flow from financing activities		
Repayment of long-term debt	(89,487)	(96,624)
Decrease in bond reserve funds	85,623	89,600
Net cash used in financing activities	(3,864)	(7,024)
Decrease in cash and cash equivalents	(803,831)	(761,603)
Cash and cash equivalents at beginning of period	8,947,777	10,813,492
Cash and cash equivalents at end of period	\$ 8,143,946	\$ 10,051,889

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents**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, 2006.

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.

In preparation of the Company's consolidated financial statements, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and related revenues and expenses during the reporting periods. Actual results could differ from the estimates used by management.

Note 2. Net Loss Per Share

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

	Three Months Ended June 30,	
	2006	2005
Numerator for basic and diluted net loss per share	\$ (112,018)	\$ (891,066)
Denominator for basic and diluted net loss per share - weighted average shares outstanding	11,872,331	11,872,331
Basic and diluted net loss per share	\$ (0.01)	\$ (0.08)

Common stock options and warrants to purchase 613,980 and 633,940 shares of common stock with a weighted average exercise price of \$2.85 and \$6.35 were outstanding at June 30, 2006 and 2005, 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 & Networks' 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 two segments based on detailed information contained in invoices. In addition, overhead costs, including management's time and other expenses, are allocated to each segment as appropriate.

Table of Contents

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

	Optronics	Cables & Networks	Eliminations	Consolidated
Three months ended June 30, 2006				
External sales	\$ 51	\$ 4,975	\$ -	\$ 5,026
Gross profit (loss)	(102)	1,432	-	1,330
Operating income (loss)	(362)	170	-	(192)
Depreciation and amortization	87	67	-	154
Capital expenditures	175	1	-	176
Assets	18,855	8,000	(7,705)	19,150
Three months ended June 30, 2005				
External sales	\$ 103	\$ 3,508	\$ (98)	\$ 3,513
Gross profit (loss)	(186)	912	(1)	725
Operating loss	(891)	(68)	-	