
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2011

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 000-29429

API TECHNOLOGIES CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

98-0200798
(I.R.S. Employer
Identification No.)

4705 S. Apopka Vineland Rd. Suite 210 Orlando, FL 32819
(Address of Principal Executive Offices)

(407) 909-8015
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 and 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined Rule 12b-2 of the Exchange Act).

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the number of shares outstanding of each of the issuer's class of common equity as of the latest practicable date:

49,057,590 shares of common stock with a par value of \$0.001 per share at April 5, 2011.

API TECHNOLOGIES CORP. AND SUBSIDIARIES

Report on Form 10-Q
Quarter Ended February 28, 2011
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**API TECHNOLOGIES CORP.
Consolidated Balance Sheets**

	Feb. 28, 2011 (Unaudited)	May 31, 2010
Assets		
Current		
Cash and cash equivalents	\$ 13,175,850	\$ 4,496,025
Marketable securities, at fair value	288,786	200,474
Accounts receivable, less allowance for doubtful accounts of \$263,013 and \$101,911 at February 28, 2011 and May 31, 2010, respectively	21,134,879	14,215,117
Inventories, net (note 6)	35,950,458	29,761,594
Deferred income taxes	86,472	1,277,452
Prepaid expenses and other current assets	1,561,977	1,370,407
Current assets of discontinued operations (note 5)	—	44,172
	<u>72,198,422</u>	<u>51,365,241</u>
Fixed assets, net	16,726,930	11,493,384
Fixed assets held for sale (note 2)	150,000	931,075
Deferred income taxes	—	257,290
Goodwill	87,049,524	8,461,889
Intangible assets, net	8,602,542	3,160,422
Long-lived assets of discontinued operations (note 5)	—	2,041,155
	<u>\$184,727,418</u>	<u>\$ 77,710,456</u>
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (note 8)	\$ 682,128	\$ 697,654
Accounts payable and accrued expenses	19,711,939	16,215,900
Deferred revenue	1,155,501	7,776,622
Deferred income taxes	—	1,301,364
Sellers' note payable (note 10)	9,100,000	9,100,000
Current portion of long-term debt (note 11)	179,064	289,638
Current liabilities of discontinued operations (note 5)	141,311	439,633
	<u>30,969,943</u>	<u>35,820,811</u>
Deferred income taxes	343,756	233,354
Long-term debt, net of current portion and discount (note 11)	1,540,390	22,718,609
	<u>32,854,089</u>	<u>58,772,774</u>
Commitments and contingencies (note 16)		
Shareholders' equity		
Common stock, (\$0.001 par value, 100,000,000 authorized shares, 31,392,442 and 8,211,319 shares issued and outstanding at February 28, 2011 and May 31, 2010, respectively)	56,025	32,845
Special voting stock (\$0.01 par value, 1 share authorized, issued and outstanding at February 28, 2011 and May 31, 2010, respectively)	—	—
Additional paid-in capital	185,960,778	41,544,341
Common stock subscribed but not issued	2,373,000	2,373,000
Accumulated deficit	(37,028,742)	(25,477,455)
Accumulated other comprehensive income:		
Currency translation adjustment	277,828	302,874
Unrealized gain on marketable securities, net of tax	234,440	162,077
Total accumulated other comprehensive income	<u>512,268</u>	<u>464,951</u>
	<u>151,873,329</u>	<u>18,937,682</u>
	<u>\$184,727,418</u>	<u>\$ 77,710,456</u>

The accompanying notes are an integral part of these consolidated financial statements.

API TECHNOLOGIES CORP.
Consolidated Statements of Operations

	For the Nine Months Ended Feb. 28, 2011 (Unaudited)	For the Nine Months Ended Feb. 28, 2010 (Unaudited)	For the Three Months Ended Feb. 28, 2011 (Unaudited)	For the Three Months Ended Feb. 28, 2010 (Unaudited)
Revenue, net	\$ 79,575,871	\$38,429,566	\$ 24,553,634	\$17,475,676
Cost of revenues				
Cost of revenues	60,716,243	28,906,231	19,821,028	12,950,628
Restructuring charges (note 18)	850,664	73,622	92,676	73,622
Total cost of revenues	61,566,907	28,979,853	19,913,704	13,024,250
Gross profit	18,008,963	9,449,713	4,639,929	4,451,426
Operating expenses				
General and administrative	10,881,021	7,344,258	3,224,873	3,272,402
Selling expenses	4,085,616	2,512,847	1,841,693	847,160
Research and development	1,735,639	1,791,896	481,090	1,011,022
Business acquisition and related charges	6,079,382	2,023,314	6,079,382	881,517
Restructuring charges	1,903,651	510,018	261,794	510,018
	<u>24,685,309</u>	<u>14,182,333</u>	<u>11,888,832</u>	<u>6,522,119</u>
Operating loss	(6,676,345)	(4,732,620)	(7,248,902)	(2,070,693)
Other (income) expenses, net				
Interest expense, net	3,175,480	797,095	643,624	585,174
Amortization of note discounts due to debt extinguishment	2,775,918	—	2,775,918	—
Other income, net	(975,528)	(1,971,501)	(139,168)	(1,532)
	<u>4,975,870</u>	<u>(1,174,406)</u>	<u>3,280,374</u>	<u>583,642</u>
Loss from continuing operations before income taxes	(11,652,215)	(3,558,214)	(10,529,296)	(2,654,335)
Provision for income taxes	13,387	37,234	100	12,187
Loss from continuing operations	(11,665,602)	(3,595,448)	(10,529,376)	(2,666,522)
Income (loss) from discontinued operations, net of income taxes	114,315	(5,755,193)	(17,964)	(3,967,601)
Net loss	<u>\$(11,551,287)</u>	<u>\$(9,350,641)</u>	<u>\$(10,547,340)</u>	<u>\$(6,634,123)</u>
Loss per share from continuing operations—Basic and diluted	\$ (0.97)	\$ (0.42)	\$ (0.57)	\$ (0.31)
Income (loss) per share from discontinued operations—Basic and diluted	\$ 0.01	\$ (0.67)	\$ 0.00	\$ (0.45)
Net loss per share—Basic and diluted	<u>\$ (0.96)</u>	<u>\$ (1.09)</u>	<u>\$ (0.57)</u>	<u>\$ (0.76)</u>
Weighted average shares outstanding				
Basic	12,041,233	8,621,017	18,480,738	8,738,711
Diluted	12,041,233	8,621,017	18,480,738	8,738,711

The accompanying notes are an integral part of these consolidated financial statements.

API TECHNOLOGIES CORP.
Consolidated Statement of Changes in Shareholders' Equity
(Unaudited)

	Common stock- number of shares	Common stock amount	Additional paid-in capital	Common stock subscribed but not issued	Accumulated Deficit	Accumulated other comprehensive income	Total stockholders' equity
Balance at May 31, 2010	8,211,319	\$32,845	\$ 41,544,341	\$2,373,000	\$(25,477,455)	\$ 464,951	\$ 18,937,682
Stock-based compensation expense	—	—	2,084,319	—	—	—	2,084,319
Stock issued to Parent as part of Merger (Note 1)	22,000,000	22,000	133,078,000	—	—	—	133,100,000
Fair value of options and earn-out payments from Merger	—	—	5,753,498	—	—	—	5,753,498
Stock issued from conversion of Convertible debt	1,216,667	1,216	3,648,783	—	—	—	3,650,000
Stock repurchases	(35,544)	(36)	(148,163)	—	—	—	(148,199)
Net loss for the period	—	—	—	—	(11,551,287)	—	(11,551,287)
Foreign currency translation adjustment	—	—	—	—	—	(25,046)	(25,046)
Unrealized gain on marketable securities – net of taxes	—	—	—	—	—	72,363	72,363
Total comprehensive loss	—	—	—	—	—	—	(11,503,970)
Balance at February 28, 2011	<u>31,392,442</u>	<u>\$56,025</u>	<u>\$185,960,778</u>	<u>\$2,373,000</u>	<u>\$(37,028,742)</u>	<u>\$ 512,268</u>	<u>\$151,873,329</u>

The accompanying notes are an integral part of these consolidated financial statements.

API TECHNOLOGIES CORP.
Consolidated Statements of Cash Flows

	Nine Months Ended February 28,	
	2011	2010
Cash flows from operating activities		
Net loss	\$(11,551,287)	\$ (9,350,641)
Less: (Income) loss from discontinued operations	(114,315)	5,755,193
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	1,577,325	693,517
Amortization of note discounts	510,953	98,157
Amortization of note discounts due to debt extinguishment	2,775,918	—
Write down of fixed assets held for sale	449,541	324,410
Stock based compensation	2,084,319	1,040,174
Gain on business asset acquisition	—	(993,192)
Gain on sale of fixed assets	(916,454)	(961,412)
Deferred income taxes	(13,387)	(714)
Changes in operating asset and liabilities, net of business acquisitions		
Accounts receivable	954,062	(2,343,301)
Inventories	11,008,338	1,475,092
Prepaid expenses and other current assets	(25,866)	423,274
Accounts payable and accrued expenses	(3,898,551)	2,320,173
Deferred revenue	(7,790,388)	101,325
Net cash used by continuing activities	(4,949,791)	(1,417,945)
Net cash provided (used) by discontinued operations	129,908	(2,679,441)
Net cash used by operating activities	(4,819,883)	(4,097,386)
Cash flows from investing activities		
Purchase of fixed assets	(1,332,862)	(545,868)
Proceeds from disposal of fixed assets	1,724,308	2,827,012
Business acquisitions net of cash acquired of \$32,353,419, and \$2,071,270 (note 4)	32,353,419	(16,935,413)
Discontinued operations (note 5)	2,041,155	(43,433)
Net cash provided (used) by investing activities	34,786,020	(14,697,702)
Cash flows from financing activities		
Repurchase and retirement of common shares	(148,199)	(2,400)
Short-term borrowings advances (repayments), net	(71,610)	—
Repayment of long-term debt (note 11)	(21,145,161)	(231,003)
Net proceeds—long-term debt (note 11)	—	23,650,000
Net cash provided (used) by financing activities	(21,364,970)	23,416,597
Effect of exchange rate on cash and cash equivalents	63,065	(22,972)
Net change in cash and cash equivalents	8,664,232	4,598,537
Cash and cash equivalents, beginning of period—continuing operations	4,496,025	2,423,835
Cash and cash equivalents, beginning of period—discontinued operations	15,593	6,093
Cash and cash equivalents, beginning of period	4,511,618	2,429,928
Cash and cash equivalents, end of period	\$ 13,175,850	\$ 7,028,465
Less: cash and cash equivalents of discontinued operations, end of period	—	58,803
Cash and cash equivalents of continuing operations, end of period	\$ 13,175,850	\$ 6,969,662

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

API Technologies Corp. (“API”, and together with its subsidiaries, the “Company”), designs, develops and manufactures high reliability engineered solutions, systems, secure communications and electronic components for military and aerospace applications, including mission critical information systems and technologies.

On January 9, 2011, API entered into an Agreement and Plan of Merger, (the “Merger Agreement”) with Vintage Albany Acquisition, LLC, a Delaware limited liability company (“Vintage”), and API Merger Sub, Inc., a New York corporation (“Sub”), pursuant to which the Company acquired SenDEC Corp., a New York corporation (“SenDEC”) (the “Merger”). SenDEC is a leading defense electronics manufacturing services company headquartered in Fairport, New York. In the Merger, API acquired all of the equity of SenDEC, which included SenDEC’s electronics manufacturing operations and approximately \$30 million of cash, in exchange for the issuance of 22,000,000 shares of API Common Stock to Vintage (see Note 4a).

The Merger closed on January 21, 2011, immediately after the January 21, 2011 closing of the acquisition by Vintage of SenDEC, pursuant to the Agreement and Plan of Merger, entered into on January 9, 2011 and amended on January 19, 2011 (the “First Merger Agreement”) among Vintage, SenDEC, and South Albany Acquisition Corp., and Kenton W. Fiske, as Stockholder Representative, (the “First Merger”). API succeeded to the rights, and assumed the obligations, of Vintage under the First Merger Agreement among Vintage, including without limitation, the obligation to pay former SenDEC shareholders up to \$14 million in earn-out payments, potentially payable in three installments through July 31, 2013, based on achievement of certain financial milestones of SenDEC (the “Earn-Out Payment”). In addition to the Earn-Out Payment, under the First Merger Agreement, the Company has the obligation to pay the former shareholders of SenDEC on or before July 31, 2011 an amount relating to certain tax benefits realized by SenDEC relating to the payment of certain bonuses and the conversion of SenDEC’s options in connection with the First Merger (the “Special Payment”). In addition, certain SenDEC employees will be eligible for a bonus under a management bonus plan of up to \$11 million, potentially payable in three installments through July 31, 2013, based on achievement of certain financial milestones of SenDEC.

On January 20, 2010, API and three newly formed subsidiaries, API Systems, Inc. (“API Systems”), API Defense, Inc. (“API Defense”) and API Defense USA, Inc. (“API Defense USA” and collectively with API Systems and API Defense, the “API Pennsylvania Subsidiaries”) entered into an asset purchase agreement with Kuchera Defense Systems, Inc. (“KDS”), KII, Inc. (“KII”) and Kuchera Industries, LLC (“K Industries” and collectively with KDS and KII, the “KGC Companies”) dated January 20, 2010 pursuant to which the API Pennsylvania Subsidiaries purchased substantially all of the assets of the KGC Companies (see Note 4b). The KGC Companies included defense subcontractors specializing in highly engineered systems and robotics for various world governments, as well as military, defense, aerospace and homeland security prime contractors.

API, through the July 7, 2009 acquisition of the assets of Cryptek Technologies Inc. (see Note 4c), expanded its manufacturing and design of products to include secured communication products, including ruggedized computer products, network security appliances, and TEMPEST Emanation prevention products. API continues to position itself as a total engineered solution provider to various world governments, as well as military, defense, aerospace and homeland security contractors.

On December 28, 2010, API effected a 1-for-4 reverse stock split of its common stock. Each stockholder of record at the close of business on December 28, 2010 received one share for every four outstanding shares held on that date. All the references to number of shares, options and warrants presented in these consolidated financial statements have been adjusted to reflect the post split number of shares.

The unaudited consolidated financial statements include the accounts of API and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. There are no other entities controlled by the Company, either directly or indirectly. The financial statements have been prepared in accordance with the requirements of Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission (the “SEC”).

Accordingly, certain information and footnote disclosures required in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair presentation of the Company’s consolidated financial position as of February 28, 2011 and the results of its operations and cash flows for the three and nine month periods ended February 28, 2011. Results for the interim period are not necessarily indicative of results that may be expected for the entire year or for any other interim periods. The unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements of the Company and the notes thereto as of and for the fiscal year ended May 31, 2010 included in the Company’s Form 10-K filed with the SEC on August 10, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements, and the disclosures made in the accompanying notes. Examples of estimates include the provisions made for bad debts and obsolete inventory, estimates associated with annual goodwill impairment tests, and estimates of deferred income tax and liabilities. The Company also uses estimates when assessing fair values of assets and liabilities acquired in business acquisitions as well as any fair value and any related impairment charges related to the carrying value of machinery and equipment, other long-lived assets, fixed assets held for sale and discontinued operations. The Company also uses estimates in determining the remaining economic lives of long-lived assets. In addition, the Company uses assumptions when employing the Black-Scholes valuation model to estimate the fair value of stock options. Despite the Company's intention to establish accurate estimates and use reasonable assumptions, actual results may differ from these estimates.

Inventories

Inventories, which include materials, labor, and manufacturing overhead, are stated at the lower of cost (on a first-in, first-out basis) or net realizable value. The Company records a provision for both excess and obsolete inventory when write-downs or write-offs are identified. The inventory valuation is based upon assumptions about future demand, product mix and possible alternative uses.

The Company will continue to periodically review and analyze our inventory management systems, and conduct inventory impairment testing on an annual basis.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation and are depreciated using the following methods over the following periods:

<u>Straight line basis</u>	
Buildings and leasehold improvements	5-40 years
Computer equipment	3 years
Furniture and fixtures	5 years
Machinery and equipment	5-10 years
Vehicles	3 years

Betterments are capitalized and amortized by the Company, using the same amortization basis as the underlying assets over the remaining useful life of the original asset. Betterments include renovations, major repairs and upgrades that increase the service of a fixed asset and extend the useful life. Gains and losses on depreciable assets retired or sold are recognized in the consolidated statements of operations in the year of disposal. Repairs and maintenance expenditures are expensed as incurred.

Fixed Assets Held for Sale

Fixed assets held for sale have been classified as held for sale in the consolidated balance sheets. The Company estimated the fair value of the net assets to be sold at approximately \$150,000 at February 28, 2011 compared to \$930,000 at May 31, 2010. The decrease is attributed to the sale of land and buildings at two manufacturing sites in the United States for proceeds of approximately \$1,569,000.

Discontinued Operations

Components of the Company that have been disposed of are reported as discontinued operations. The assets and liabilities relating to API Nanofabrication and Research Corporation ("NanoOpto") have been reclassified as discontinued operations in the consolidated balance sheets for fiscal 2011 and 2010 and the results of operations of NanoOpto for the current and prior periods are reported as discontinued operations (Note 5) and not included in the continuing operations figures.

Goodwill and Intangible Assets

Goodwill and intangible assets result primarily from business acquisitions accounted for under the purchase method. Goodwill and intangible assets with indefinite lives are not amortized but are subject to impairment by applying a fair value based test.

The Company has two reporting units: (i) Systems and Subsystems and (ii) Secure Communications. The goodwill on our consolidated financial statements relates to the acquisition of the Filtran Group, which was completed in 2002, the acquisition of the assets of the KGC Companies in 2010 and the acquisition of SenDEC in 2011. All of our goodwill relates to our Systems and Subsystems reporting unit. Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value assigned to the individual assets acquired and liabilities assumed. The Company does not amortize goodwill but instead tests goodwill for impairment annually (on May 31) or more frequently if impairment indicators arise under the applicable accounting guidance.

A two-step test is performed to assess goodwill impairment. First, the fair value of each reporting unit is compared to its carrying value. The fair value is based on the discounted future cash flows of the subsidiary carrying the goodwill. If discounted future cash flows exceed the carrying value of the assets, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value of the goodwill. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference is recorded.

Following the required accounting guidance, the Company performed the first step of the two-step test method based on discounted future cash flows on May 31. The respective reporting units' future cash flows significantly exceeded the carrying value of the underlying assets and therefore goodwill was not impaired and no further testing was required.

At May 31, 2010 we had no reporting units at risk of failing step one of the impairment model based on a comparison of the fair values of the individual reporting units to their respective carrying amounts.

The Company considered and has determined that no interim impairment testing was required since impairment indicators did not exist for either of its reporting units during the nine months ended February 28, 2011.

Intangible assets that have a finite life are amortized using the following basis over the following period:

Non-compete agreements	Straight line over 5 years
Computer software	3-5 years
Customer related intangibles	4-15 years
Marketing related intangibles	3 years

Long-Lived Assets

The Company periodically evaluates the net realizable values of long-lived assets, principally identifiable intangibles and capital assets, for potential impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, as determined based on the estimated future undiscounted cash flows. If such assets were considered to be impaired, the carrying value of the related assets would be reduced to their estimated fair value.

Income Taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial reporting and tax bases of assets and liabilities and available net operating loss carry forwards. A valuation allowance is established to reduce tax assets if it is more likely than not that all or some portions of such tax assets will not be realized.

The Company's valuation allowance was taken on the deferred tax assets to provide for a reasonable provision, which in the Company's estimation is more likely than not that all or some portions of such tax assets will not be realized. In determining the adequacy of the valuation allowance, the Company applied the authoritative guidance, and considered such factors as (i) which subsidiaries were producing income and which subsidiaries were producing losses and (ii) temporary differences occurring from depreciation and amortization which the Company expects to increase the taxable income over future periods. In view of the prior years' losses and the uncertainty relating to future profitability the Company has provided for 100% valuation allowance resulting in no deferred tax assets on a net basis. The position the Company takes on its deferred tax assets in the future may change, as it may be affected by the success or failure of its short-term or long-term strategies and overall global economic conditions. In addition, the Merger may limit the amounts of net operating losses which may be utilized in future periods.

The Company follows the guidance concerning accounting for uncertainty in income taxes, which clarifies the accounting and disclosure for uncertainty in tax positions. The guidance requires that the Company determine whether it is more likely than not that a tax position will not be sustained upon examination by the appropriate taxing authority. If a tax position does not meet the more likely than not recognition criterion, the guidance requires that the tax position be measured at the largest amount of benefit greater than 50 percent not likely of being sustained upon ultimate settlement.

Based on the Company's evaluation, management has concluded that there are no significant uncertain tax positions requiring recognition in the consolidated financial statements or adjustments to deferred tax assets and related valuation allowance. Open tax years include the tax years ended May 31, 2006 through 2010.

The Company from time to time has been assessed interest or penalties by major tax jurisdictions, however such assessments historically have been minimal and immaterial to our financial results. If the Company receives an assessment for interest and/or penalties, it would be classified in the consolidated financial statements as general and administrative expense.

Revenue Recognition

The Company recognizes non-contract revenue when it is realized or realizable and earned. The Company considers non-contract revenue realized or realizable and earned when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery is not considered to have occurred until products have been shipped and risk of loss and ownership has transferred to the client. Revenue from contracts is recognized using the percentage of completion method. The degree of completion is determined based on costs incurred, excluding costs that are not representative of progress to completion, as a percentage of total costs anticipated for each contract. A provision is made for losses on contracts in progress when such losses first become known. Revisions in cost and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known. Revenue from contracts under the percentage of completion method is not significant to the financials.

Deferred Revenue

The Company defers revenue when payment is received in advance of the service or product being shipped or delivered. For some of the larger government contracts, the Company will bill upon meeting certain milestones. These milestones are established by the customer and are specific to each contract. Unearned revenue is recorded as deferred revenue. The Company recognizes revenue on the contracts when items are shipped.

Research and Development

Research and development costs are expensed when incurred.

Stock-Based Compensation

The Company follows the authoritative guidance for accounting for stock-based compensation. The guidance requires that new, modified and unvested share-based payment transactions with employees, such as grants of stock options and restricted stock, be recognized in the financial statements based on their fair value at the grant date and recognized as compensation expense over their vesting periods. The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model which takes into account as of the grant date the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the option. The Company also follows the guidance for equity instruments issued to consultants.

Foreign Currency Translation and Transactions

The Company's functional currency is United States dollars and the consolidated financial statements are stated in United States dollars, "the reporting currency." Integrated operations have been translated from Canadian dollars or British Pounds Sterling into United States dollars at the period-end exchange rate for monetary balance sheet items, the historical rate for fixed assets and shareholders' equity, and the average exchange rate for the year for revenues, expenses, gains and losses. The gains or losses on translation are included as a component of other comprehensive income (loss) for the period.

Financial Instruments

The fair values of financial instruments including cash and cash equivalents, marketable securities, accounts receivable, accounts payable, and short-term borrowings approximate their carrying values due to the short-term nature of these instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. Marketable securities are included at fair value based on quoted market prices in active markets. The recorded value of long-term debt approximates the fair value of the debt as the terms and rates approximate market rates.

The Company carries out a portion of transactions in foreign currencies included in the Company's cash, marketable securities, accounts receivable, accounts payable and bank indebtedness with balances denominated in Canadian dollars or Pound Sterling as well as a mortgage loan denominated in Pound Sterling. The translation adjustments related to these accounts have been reflected as a component of comprehensive income.

Long-term Debt Discount

In accordance with accounting standards the Company recognized the value of detachable warrants issued in conjunction with the issuance of the secured promissory notes and the modification of the convertible promissory notes. The Company valued the warrants using the Black-Scholes pricing model. The Company recorded the warrant relative fair value as an increase to additional paid-in capital and a discount against the related debt. The discount attributed to the value of the warrants was being amortized over the term of the underlying debt using the effective interest method. During the quarter ended February 28, 2011, following the repayment of the secured promissory notes and the conversion of the convertible promissory notes, the remaining discount attributed to the value of the warrants was recorded in Other income, net.

Concentration of Credit Risk

The Company maintains cash balances, at times, with financial institutions, which are in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) and Canadian Deposit Insurance Corporation (CDIC). Management monitors the soundness of these institutions and has not experienced any collection losses with these institutions.

The US, Canadian and United Kingdom Governments' Departments of Defense (directly and through subcontractors) accounts for approximately 71%, 5% and 5% of the Company's revenues for the nine months ended February 28, 2011 (49%, 9% and 11% for the nine months ended February 28, 2010), respectively. One of these customers, a tier one Defense subcontractor, represented approximately 27% of revenues for the nine months ended February 28, 2011 (12% of revenues for the nine months ended February 28, 2010). The same customer represented 5% and 20% of our accounts receivable at February 28, 2011 and May 31, 2010, respectively. A loss of a significant customer could adversely impact the future operations of the Company.

Earnings (Loss) per Share of Common Stock

Basic earnings (loss) per share of common stock is computed by dividing income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share of common stock gives effect to all dilutive potential shares of common stock outstanding during the period. The computation of diluted earnings (loss) per share does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on earnings (loss) per share (Note 15).

Comprehensive Income (Loss)

Comprehensive income (loss), which includes foreign currency translation adjustments and unrealized gains on marketable securities, is shown in the Consolidated Statement of Changes in Shareholders' Equity.

Comparative Reclassifications

Certain amounts from 2010 have been reclassified to conform to the February 28, 2011 financial statement presentation. The reclassifications related to a change in the Sellers' Note (see note 10) and the loss per share amounts due to the one-for-four reverse stock split of the Company's outstanding common shares and exchangeable shares (see note 12).

3. EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued guidance related to revenue recognition for arrangements with multiple deliverables. This guidance eliminates the residual method of allocation and requires the relative selling price method when allocating deliverables of a multiple-deliverable revenue arrangement. The determination of the selling price for each deliverable requires the use of a hierarchy designed to maximize the use of available objective evidence including, vendor specific objective evidence, third party evidence of selling price, or estimated selling price. The guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and must be adopted in the same period using the same transition method. If adoption is elected in a period other than the beginning of a fiscal year, the amendments in these standards must be applied retrospectively to the beginning of the fiscal year. Full retrospective application of these amendments to prior fiscal years is optional. Early adoption of these standards may be elected. We are currently evaluating the impact of these new accounting standards on our consolidated financial statements.

4. ACQUISITIONS

a) SenDEC Corp.

On January 9, 2011, API entered into the Merger Agreement with Vintage and Sub, pursuant to which the Company acquired SenDEC. SenDEC is a leading defense electronics manufacturing services company headquartered in Fairport, New York. In the Merger, API acquired all of the equity of SenDEC, which included SenDEC's electronics manufacturing operations and approximately \$30 million of cash, in exchange for the issuance of 22,000,000 shares of API Common Stock to Vintage.

The Merger closed on January 21, 2011, immediately after the January 21, 2011 closing of the acquisition by Vintage of SenDEC, pursuant to the Merger Agreement, entered into the First Merger Agreement among Vintage, SenDEC, and South Albany Acquisition Corp., and Kenton W. Fiske, as Stockholder Representative. API succeeded to the rights, and assumed the obligations, of Vintage under the First Merger Agreement among Vintage, including the Earn-Out Payment and the Special Payment. In addition, certain SenDEC employees will be eligible for a bonus under a management bonus plan of up to \$11 million, potentially payable in three installments through July 31, 2013, based on achievement of certain financial milestones of SenDEC.

The Company has accounted for the acquisition using the purchase method of accounting in accordance with the guidance on business combinations. The Company also incurred legal costs, reorganization charges, professional fees and accelerated stock option expense in connection with the acquisition of approximately \$6,039,000. The expenses have been accounted for as operating expenses. The results of operations of SenDEC have been included in the Company's results of operations beginning on January 21, 2011.

Accounting guidance requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. Assets and liabilities acquired were as follows:

Cash	\$ 32,353,419
Accounts receivable and other current assets	8,167,980
Inventory	16,941,910
Fixed assets	5,602,054
Customer related intangibles	3,738,000
Marketing related intangibles	2,138,000
Goodwill	78,587,635
Assumed current liabilities	(7,927,185)
Assumed deferred revenue	(758,317)
Fair value of net assets acquired	<u>\$138,843,496</u>

The fair value of shares issued to Vintage, options issued to SenDEC management and the earn-out payments exceeded the underlying fair value of all net assets acquired, giving rise to the goodwill. Customer and marketing related intangibles are amortized based on the pattern in which the economic benefits are expected to be realized, over an estimated life of 4 years.

The fair value of the consideration, assets acquired and liabilities assumed remain subject to potential adjustments. Material adjustments, if any, to provisional amounts in subsequent periods, will be reflected retrospectively as required.

Revenues and net income from the acquisition date, January 21, 2011, to February 28, 2011 were approximately \$8,600,000 and \$612,000, respectively.

Fixed assets acquired in this transaction consist of the following:

Buildings and leasehold improvements	\$ 515,549
Computer equipment	210,482
Furniture and fixtures	105,637
Machinery and equipment	4,770,386
Total fixed assets acquired	<u>\$5,602,054</u>

b) KGC Companies

On January 20, 2010, API and three newly formed subsidiaries, the API Pennsylvania Subsidiaries, entered into an asset purchase agreement with the KGC Companies dated January 20, 2010 pursuant to which the API Pennsylvania Subsidiaries purchased substantially all of the assets of the KGC Companies.

The KGC Companies included defense subcontractors specializing in highly engineered systems and robotics for the defense and aerospace industries. The API Pennsylvania Subsidiaries purchased the assets of the KGC Companies for total consideration of \$27,580,000, comprised of (i) \$24,000,000, including \$14,000,000 of cash paid at closing and a \$10,000,000 short-term note (the "Sellers' Note") dated January 20, 2010 issued to the KGC Companies and (ii) 800,000 shares of API common stock (the "Shares") payable as follows: 250,000 Shares were issued and delivered at closing, 250,000 Shares were to be issued and delivered on the first anniversary of the closing and 300,000 Shares are to be issued and delivered on the second anniversary of the closing. Of the 550,000 shares remaining to be delivered, 126,250 were placed in escrow to satisfy future indemnification claims under the Purchase Agreement by the Company and the API Pennsylvania Subsidiaries. The escrowed shares have been accounted for as common stock subscribed but not issued with a value of \$2,373,000. During December 2010, there was a \$900,000 downward adjustment to the principal amount and an extension of the due date, see Note 10 Sellers' Note Payable. The stock issued and to be issued was valued at \$5.60 per share, the fair value of the common stock at the transaction date.

The Company accounted for the acquisition using the purchase method of accounting in accordance with the guidance on business combinations. The Company also incurred legal costs, reorganization charges and professional fees in connection with the acquisition of approximately \$1,216,000. The expenses have been accounted for as operating expenses. The results of operations of the API Pennsylvania Subsidiaries have been included in the Company's results of operations beginning on January 20, 2010.

Accounting guidance requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. The fair values of the assets acquired and the liabilities assumed have been determined provisionally and are subject to adjustment as additional information is obtained by the Company. Assets and liabilities acquired were as follows:

Accounts receivable and prepaids	\$ 7,654,386
Inventory	20,271,816
Fixed assets	5,490,129
Technology and Customer related intangibles	2,585,000
Goodwill	7,330,983
Assumed current liabilities	(3,006,135)
Assumed deferred revenue	(11,628,411)
Assumed capital leases payable	(1,117,768)
Fair value of net assets acquired	<u>\$ 27,580,000</u>

The fair value of the KGC Companies exceeded the underlying fair value of all other assets acquired, thereby giving rise to the goodwill. Technology and customer related intangibles are amortized on a straight line basis over 15 years.

Revenues and net income of API Pennsylvania Subsidiaries, for the nine months ended February 28, 2011, were approximately \$44,652,000 and \$2,613,000, respectively (period from January 20, 2010 acquisition to February 28, 2010 – \$7,203,000 and \$1,357,000, respectively).

Fixed assets acquired in this transaction consist of the following:

Buildings and leasehold improvements	\$ 1,958,390
Machinery and equipment	3,337,661
Furniture and fixtures	120,667
Vehicles	73,411
Total fixed assets acquired	<u>\$ 5,490,129</u>

c) Cryptek Technologies Inc.

On July 7, 2009, API Cryptek Inc. (“API Cryptek”), a wholly-owned subsidiary of the Company, incorporated on June 23, 2009, acquired substantially all of the assets of Cryptek Technologies Inc. (“Cryptek”), including its wholly-owned subsidiaries, Emcon Emanation Control Ltd., located in Canada and Secure Systems & Technologies, Ltd., located in the United Kingdom and its Ion Networks division (DBA Ion) located in the United States, through the foreclosure on API Cryptek’s security interest and liens in the Cryptek assets, and subsequent sale under the Uniform Commercial Code. API Cryptek was the successful bidder of the Cryptek assets at the sale, by bidding the total amount owed by Cryptek to API Cryptek under loan documents previously purchased by API Cryptek for \$5,000,000.

Cryptek developed and delivered secure communication solutions to various industries and government agencies. Cryptek also was a provider of emanation security products and solutions.

The Cryptek acquisition was completed with proceeds from corporate funds and the private placement of secured, convertible promissory notes completed June 23, 2009. (Note 11a)

The Company has accounted for the acquisition using the purchase method of accounting in accordance with the guidance on business combinations. The Company also incurred legal costs, reorganization charges and professional fees in connection with the acquisition of approximately \$790,000. The expenses have been accounted for as operating expenses. The results of operations of API Cryptek have been included in the Company’s results of operations beginning on July 7, 2009.

Accounting guidance requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. Assets and liabilities acquired were as follows:

Cash	\$ 2,071,270
Accounts receivable and prepaids	2,409,736
Inventory	2,990,046
Fixed assets	3,434,836
Customer related intangibles	508,000
Assumed current liabilities	(3,519,194)
Assumed mortgage payable	(1,901,502)
Fair value of net assets acquired	<u>\$ 5,993,192</u>

The fair value of the net assets acquired in this transaction exceeded the fair value of the purchase price. As a result, the Company recognized a gain on acquisition of approximately \$993,000 in the consolidated statement of operations for the year ended May 31, 2010. This gain was included in other income (expense), net.

Revenues and net loss for the nine months ended February 28, 2011 were approximately \$12,673,000 and \$(2,074,000), respectively. Revenues and net loss from the acquisition date, July 7, 2009, to February 28, 2010 were approximately \$14,846,000 and \$(2,946,000), respectively.

Fixed assets acquired in this transaction consist of the following:

Buildings and leasehold improvements	\$ 2,820,576
Machinery and equipment	530,747
Furniture and fixtures	36,857
Vehicles	46,656
Total fixed assets acquired	<u>\$ 3,434,836</u>

The following unaudited pro forma summary presents the combined results of operations as if the SenDEC, KGC Companies and Cryptek acquisitions described above had occurred at the beginning of the three and nine month periods ended February 28, 2011 and February 28, 2010.

	<u>Nine months ended February 28,</u>		<u>Three months ended February 28,</u>	
	2011	2010	2011	2010
Revenues	\$147,033,709	\$131,382,440	\$ 31,836,616	\$47,094,593
Net loss from continuing operations	\$ (8,445,616)	\$ (749,319)	\$(10,378,952)	\$(1,220,565)
Net loss	\$ (8,331,300)	\$ (6,504,512)	\$(10,396,915)	\$(5,188,165)
Net loss from continuing operations per share – basic and diluted	\$ (0.26)	\$ (0.02)	\$ (0.32)	\$ (0.04)
Net loss per share – basic and diluted	\$ (0.26)	\$ (0.20)	\$ (0.32)	\$ (0.16)

5. DISCONTINUED OPERATIONS

On February 20, 2010 the Company announced that it closed its nanotechnology research and development subsidiary, NanoOpto, which was included in the Systems and Subsystems segment. NanoOpto was acquired by API in 2007 and is located in Somerset, New Jersey. During the quarter ended August 31, 2010, the Company sold the assets of NanoOpto for gross cash proceeds of approximately \$2,300,000.

The operating results of NanoOpto are summarized as follows:

	<u>Nine months ended February 28,</u>		<u>Three months ended February 28,</u>	
	2011	2010	2011	2010
Revenue, net	\$ —	\$ 482,899	\$ —	\$ 40,591
Cost of revenues	—	113,669	—	11,964
Gross Profit	—	369,230	—	28,627
General and administrative	103,543	534,226	—	171,390
Research and development	31,332	2,772,200	—	1,035,183
Selling expenses	—	53,342	—	14,734
Provision for income taxes	—	1,560	—	520
Other income (loss)	(249,190)	(19,250)	17,964	(8,035)
Write-down of long-lived assets	—	2,782,345	—	2,782,345
Income (loss) from discontinued operations, net of tax	<u>\$ 114,315</u>	<u>\$ (5,755,193)</u>	<u>\$ (17,964)</u>	<u>\$ (3,967,600)</u>

The assets and liabilities relating to NanoOpto consisted of the following:

	February 28, 2011	May 31, 2010
Cash	\$ —	\$ 15,593
Prepaid expenses	—	28,579
Current assets of discontinued operations	<u>\$ —</u>	<u>\$ 44,172</u>
Fixed assets, net	\$ —	\$ 636,757
Intangible assets, net	—	1,404,398
Long-lived assets of discontinued operations	<u>\$ —</u>	<u>\$2,041,155</u>
Accounts payable and accrued expenses	<u>\$ 141,311</u>	<u>\$ 439,633</u>
Current liabilities of discontinued operations	<u>\$ 141,311</u>	<u>\$ 439,633</u>

6. INVENTORIES

Inventories consisted of the following:

	February 28, 2011	May 31, 2010
Raw materials	\$18,402,100	\$ 9,159,594
Work in progress	14,652,284	18,397,270
Finished goods	<u>2,986,074</u>	<u>2,204,730</u>
Total	<u>\$35,950,458</u>	<u>\$29,761,594</u>

Inventories are presented net of valuation allowances.

7. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of Goodwill were as follows:

Balance, May 31, 2010	\$ 8,461,889
Goodwill from SenDEC business acquisition (note 4a)	78,587,635
Balance, February 28, 2011	<u>\$87,049,524</u>

Changes in the carrying amount of Intangible assets were as follows:

Balance, May 31, 2010	\$ 3,160,422
Intangible assets from SenDEC business acquisition (note 4a)	5,876,000
Less: Amortization	(433,880)
Balance, February 28, 2011	<u>\$ 8,602,542</u>

8. BANK INDEBTEDNESS

On December 21, 2009, the Company secured a line of credit facility, which renews annually, at its Emcon Emanation Control subsidiary in Canada in the amount of approximately \$1,024,000 (\$1,000,000 CAD). Interest on the line of credit facility is charged at a margin of 1.8% over the Royal Bank Prime Rate for Canadian borrowings or Royal Bank US Prime Base Rate for USD borrowings, which were 3.00% and 3.75%, respectively at February 28, 2011. The facility is secured by the subsidiaries' assets. As of February 28, 2011 the Company had drawn \$682,128 under this facility.

The Company also has a credit facility in place for its U.K. subsidiary for approximately \$404,000 (250,000 GBP), which renews in October 2011. This line of credit is tied to the prime rate in the United Kingdom and is secured by the subsidiaries' assets. This facility was undrawn as of February 28, 2011.

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	February 28, 2011	May 31, 2010
Accounts payable and accrued expenses	\$17,431,501	\$13,892,876
Wage and vacation accrual	<u>2,280,438</u>	<u>2,323,024</u>
Total	<u>\$19,711,939</u>	<u>\$16,215,900</u>

10. SELLERS' NOTE PAYABLE

The Company was obligated under the following debt instrument:

	February 28, 2011	May 31, 2010
Sellers' Note payable, due February 20, 2011, 10% interest	<u>\$9,100,000</u>	<u>\$9,100,000</u>

On January 20, 2010, the API Pennsylvania Subsidiaries issued the Sellers' Note in connection with the purchase of the assets of the KGC Companies (see Note 4b).

On December 14, 2010, API and the API Pennsylvania Subsidiaries (API and the API Pennsylvania Subsidiaries collectively, the "Buyers") and the KGC Companies, William Kuchera ("William") and Ronald Kuchera ("Ronald" and with William, collectively, the "Shareholders") entered into an Amended and Restated Promissory Note (the "Amended Note") in favor of K Industries, which amends certain terms of the Sellers' Note. The Amended Note reduces the outstanding principal balance from \$10,000,000 to \$9,100,000 to account for the results of post acquisition audits of various government contracts that were performed by KGC Companies prior to the acquisition. The Amended Note also extends the maturity date of the Sellers' Note from December 31, 2010 to March 31, 2011 (the "First Extension") and thereafter to June 30, 2011 (the "Second Extension"). As consideration for the extension of the maturity date of the Sellers' Note, the API Pennsylvania Subsidiaries have agreed to pay to K Industries for the period from January 1, 2011 through March 31, 2011, interest at the rate of eight percent (8%) per annum and from the period from April 1 through June 30, 2011 interest at the rate of ten percent (10%) per annum. The API Pennsylvania Subsidiaries prepaid interest for the First Extension and must prepay the interest for the Second Extension prior to the commencement of the respective extension period. If the Amended Note is repaid prior to the end of the applicable extension period, K Industries will repay to the API Pennsylvania Subsidiaries the amount of prepaid interest that did not accrue. The entire principal balance of the Amended Note is due at maturity.

The Amended Note remains secured by the assets of the Sellers purchased by the API Pennsylvania Subsidiaries, after-acquired government and non-government contracts and purchase orders relating to the business of the KGC Companies and the proceeds thereof as set forth in the security agreement executed in connection with the Sellers' Note.

The Amended Note provides for a maturity date, among other events, 30 days after a change in control of API. Following the acquisition of SenDEC Corporation by API on January 21, 2011, which constituted a change in control of API under the Amended Note, the Amended Note became due on February 20, 2011. Under the Purchase Agreement, API is obligated to issue an additional 550,000 shares of the Company to the Sellers as part of the purchase price and as a result of the change of control, these shares became immediately issuable on January 21, 2011. In addition, the Company and the API Subsidiaries have made indemnification claims against the Sellers under the Purchase Agreement. The Purchase Agreement gives the Company and the API Pennsylvania Subsidiaries the right to offset the value of shares due to Sellers by the amount of our indemnification claims. The API Pennsylvania Subsidiaries have notified the Sellers that they will repay the outstanding principal of the Amended Note and deliver any shares issuable to them once the indemnification claims have been settled. The API Pennsylvania Subsidiaries continue to negotiate with the Sellers to resolve the outstanding issues. The API Pennsylvania Subsidiaries have sufficient funds to repay the Amended Note. Nonpayment of the Amended Note and non-delivery of the shares are due solely to the indemnification claims.

Accrued interest as of February 28, 2011 was \$nil and \$126,027 as of May 31, 2010 and was included in accounts payable and accrued expenses.

11. LONG-TERM DEBT

The Company was obligated under the following debt instruments:

	February 28, 2011	May 31, 2010
Convertible promissory notes, net of discount of \$0 and \$185,092 at February 28, 2011 and May 31, 2010, respectively, due June 23, 2012, 12% interest (a)	\$ —	\$ 3,464,908
Secured promissory notes, net of discount of \$0 and \$3,101,780 at February 28, 2011 and May 31, 2010, respectively, due January 20, 2013, 15% interest (b)	—	16,898,220
Mortgage loan, due 2027, 1.35% above Barclays fixed bank rate (c)	1,662,966	1,572,227
Capital leases payable (d)	56,487	1,072,892
	<u>\$1,719,453</u>	<u>\$23,008,247</u>
Less: Current portion of long-term debt	(179,064)	(289,638)
Long-term portion	<u>\$1,540,390</u>	<u>\$22,718,609</u>

- a) On June 23, 2009, the Company issued secured, convertible promissory notes (“Convertible Notes”) to a group of investors in the aggregate principal amount of \$3,650,000. Interest on the Convertible Notes was payable at the annual rate of 12% at the end of each calendar quarter. The Convertible Notes were secured by the personal property of the Company and its subsidiaries. The Convertible Notes were due on June 23, 2012, however they were converted on January 31, 2011 to common stock (see Note 12).

The outstanding principal amount of the Convertible Notes and/or accrued and unpaid interest or any portion thereof were convertible at the holder’s option into shares of common stock of the Company, at a price per share equal to \$3.00 per share.

On December 21, 2009, the Note and Security Agreement between the Company and the holders of the Convertible Notes was amended pursuant to a First Amendment to Note and Security Agreement (the “First Amendment”). The holders of the Convertible Notes agreed that the Company may incur senior secured debt in connection with any line of credit or other working capital facility, or in connection with any stock or asset acquisition. In consideration of the holders of the Convertible Notes entering into the First Amendment, the Company agreed to issue warrants to purchase approximately 62,500 shares of the common stock of the Company (the “December Warrants”), pro rata among the Convertible Notes holders, at an exercise price of \$5.08 per share. The December Warrants are still outstanding as of February 28, 2011 and expire June 23, 2012.

The number of shares of common stock that can be purchased upon the exercise of the December Warrants and the exercise price of the December Warrants are subject to customary anti-dilution provisions. The Company evaluated the December Warrants for purposes of classification and determined they did not embody any of the conditions for liability classification, but rather meet the conditions for equity classification. In addition, the Company determined that the December Warrants should be treated as a modification and not an extinguishment of debt. As a result, the discount resulting from the value of the warrants was being amortized over the life of the Convertible Notes using the effective interest method prior to conversion to common stock on January 31, 2011.

- b) On January 20, 2010 and January 22, 2010, API received total cash proceeds of \$20,000,000 in conjunction with the sale of Secured Promissory Notes (“Notes”) with a principal amount of \$20,000,000 and warrants to purchase approximately 892,900 shares of common stock (“Warrants”) of API to various investors.

The Notes were originally due three years from issuance. Interest accrued at an annual rate of 15% per annum and was payable in arrears each calendar quarter. The entire principal balance and all accrued and unpaid interest on the Notes was to be payable upon maturity. The Company elected to prepay all of the Notes on January 20, 2011. The Notes were secured by the assets of API and its subsidiaries pursuant to security agreements, excluding real estate. The following were permitted senior debt and liens under the Notes: (1) working capital loans and (2) security interests granted in connection with any acquisition by API of other companies, lines of businesses or assets, or the financing thereof.

The warrants have an exercise price of \$5.60 per share and expire in five years from issuance. The number of shares of common stock that can be purchased upon the exercise of the Warrants and the exercise price of the Warrants are subject to customary anti-dilution provisions. The Company evaluated the Warrants for purposes of classification and determined that they did not embody any of the conditions for liability classification, but rather met the conditions for equity classification. The discount resulting from the value of the Warrants was being amortized over the life of the Notes using the effective interest method, prior to the prepayment of the Notes.

- c) A subsidiary of the Company in the United Kingdom entered into a 20 year term mortgage agreement in 2007, under which interest is charged at a margin of 1.35% over Barclays Fixed Base Rate of 0.5% at February 28, 2011. The mortgage is secured by the subsidiaries’ land and building.
- d) On August 5, 2010, the Company purchased certain equipment that was under capital lease by paying the outstanding capital lease obligation amount of approximately \$1,003,000 related to those assets.

12. SHAREHOLDERS’ EQUITY

As discussed in Note 20, on March 18, 2011, the Company entered into a Common Stock Purchase Agreement, by and among the Company and the Purchasers (as defined therein), pursuant to which the Company has issued 17,095,102 shares of its common stock in a private placement for a purchase price of \$6.00 per share.

As discussed in Note 20, on March 28, 2011, the Company issued, to an officer of the Company as part of his appointment as President and Chief Operating Officer, 300,000 shares of API’s common stock and 140,019 of these shares were reacquired through the withholding of shares to pay employee tax obligations upon the issuance of the shares.

On January 31, 2011, the Company issued 1,216,667 shares of its common stock to the holders of the \$3,650,000 Convertible Notes for a price equal to \$3.00 per share.

On January 21, 2011, API acquired all of the equity of SenDEC, which included SenDEC's electronics manufacturing operations and approximately \$30 million of cash, in exchange for the issuance of 22,000,000 API common shares to Vintage (see Note 4a).

On December 28, 2010, the Company filed a Certificate of Amendment of Amended and Restated Certificate of Incorporation, which effected a one-for-four reverse stock split of the Company's outstanding common shares. A one-for-four reverse stock split was also effected for the exchangeable shares. All the references to number of shares, options and warrants presented in these financial statements have been adjusted to reflect the post split number of shares.

On January 20, 2010 the Company agreed to issue 800,000 shares of API common stock payable as part of the compensation to the KGC Companies (see Note 4b) or their designees. 250,000 shares were issued and delivered at closing, 250,000 shares were to be issued and delivered on the first anniversary of the closing and 300,000 shares are to be issued and delivered on the second anniversary of the closing. The Company has issued 126,250 shares in escrow from the 550,000 shares remaining to be delivered. The API Pennsylvania Subsidiaries may claim and have claimed a right of set off under the Amended Note the escrowed shares in the event amounts become due to them under the indemnification provisions of the asset purchase agreement (see Note 10). The unissued shares have been accounted for as common stock subscribed but not issued.

In connection with the Plan of Arrangement that occurred on November 6, 2006, the Company was obligated to issue 2,354,505 shares of either API common stock or exchangeable shares of API Nanotronics Sub, Inc. in exchange for the API Electronics Group Corp. common shares previously outstanding. As of February 28, 2011, API is obligated to issue a remaining approximately 625,900 shares of its common stock under the Plan of Arrangement either directly for API common shares or in exchange for API Nanotronics Sub, Inc. exchangeable shares not held by API or its affiliates. There are 584,631 exchangeable shares outstanding (excluding exchangeable shares held by the Company). Exchangeable shares are substantially equivalent to our common stock.

On March 9, 2010, the Company's Board of Directors authorized a program to repurchase approximately 10% of its common stock (approximately 831,250 shares) over the next 12 months. As of February 28, 2011, the Company repurchased and retired 137,728 of its common stock under this program for net outlay of approximately \$716,000.

The Company issued 1,005,834 options during the nine months ended February 28, 2011, including 750,000 to SenDEC employees and consultants as part of the Merger. During the year ended May 31, 2010 the Company issued 688,277 options related to employment arrangements (Note 13). These option grants were valued using the Black-Scholes option-pricing model.

13. STOCK-BASED COMPENSATION

On October 26, 2006, the Company adopted its 2006 Equity Incentive Plan (the "Equity Incentive Plan"), which was approved at the 2007 Annual Meeting of Stockholders of the Company. All the prior options issued by API were carried over to this plan under the provisions of the Plan of Arrangement. On October 22, 2009, the Company amended the 2006 Equity Compensation Plan to increase the number of shares of common stock under the plan from 1,250,000 to 2,125,000. On January 21, 2011, the Company amended the 2006 Equity Compensation Plan to increase the number of shares of common stock under the plan from 2,125,000 to 5,875,000. Of the 5,875,000 shares authorized under the Equity Incentive Plan, 3,571,167 shares are available for issuance pursuant to options or as stock as of February 28, 2011. Under the Company's Equity Incentive Plan, incentive options and non-statutory options may have a term of up to ten years from the date of grant. The stock option exercise prices are generally equal to at least 100 percent of the fair market value of the underlying shares on the date the options are granted.

As of February 28, 2011, there was \$1,202,545 of total unrecognized compensation related to non-vested stock options, which are not contingent upon attainment of certain milestones. For options with certain milestones necessary for vesting, the fair value is not calculated until the conditions become probable. The cost is expected to be recognized over the remaining periods of the options, which are expected to vest from 2011 to 2015.

During the nine months ended February 28, 2011 and 2010, \$2,084,319 and \$1,040,174, respectively, has been recognized as stock-based compensation expense in cost of revenues, selling expense, general and administrative expense and business acquisition and related charges.

The fair value of each option grant is estimated at the grant date using the Black-Scholes option-pricing model based on the assumptions detailed below:

	<u>February 28, 2011</u>	<u>February 28, 2010</u>
Expected volatility	97.4%	112.8%
Expected dividends	0%	0%
Expected term	6 years	10 years
Risk-free rate	1.93%	2.37%

The summary of the common stock options granted, cancelled, exchanged or exercised under the Plan:

	Shares	Weighted Average Exercise Price
Stock Options outstanding—May 31, 2009	885,462	\$ 5.972
Less forfeited	(94,583)	\$ 7.088
Exercised	—	\$ —
Issued	688,277	\$ 5.520
Stock Options outstanding—May 31, 2010	1,479,156	\$ 5.708
Less forfeited	(181,157)	\$ 5.400
Exercised	—	\$ —
Issued	1,005,834	\$ 5.730
Stock Options outstanding—February 28, 2011	<u>2,303,833</u>	\$ 5.730
Stock Options exercisable— February 28, 2011	<u>1,732,712</u>	\$ 5.847

The weighted average grant price of stock options granted during the nine months ended February 28, 2011 and February 28, 2010 was \$5.73 and \$5.52, respectively.

Range of Exercise Price	Options Outstanding				Options Exercisable		
	Number of Outstanding at February 28, 2011	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value	Number Exercisable at February 28, 2011	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$3.56 – \$12.00	2,291,746	\$5.6754	7.879	\$1,460,846	1,722,202	\$ 5.784	\$902,471
\$12.01 – \$24.00	12,087	\$16.140	5.998	\$ —	10,510	\$16.140	\$ —
	<u>2,303,833</u>		7.869	<u>\$1,460,846</u>	<u>1,732,712</u>		<u>\$902,471</u>

The intrinsic value is calculated at the difference between the market value as of February 28, 2011 and the exercise price of the shares. The market value as of February 28, 2011 was \$6.30 as reported by the OTC Bulletin Board.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the nine months ended February 28:

	2011	2010
(a) Supplemental Cash Flow Information		
Cash paid for income taxes	\$ 2,892	\$ 37,948
Cash paid for interest	2,761,561	242,049
(b) Non cash transactions		
Sellers' note payable issued in business acquisition	\$ —	\$9,100,000
Common stock issued in business acquisition	—	2,107,000
Common stock subscribed but not issued in business acquisition	—	2,373,000
Issuance (amortization) of warrants with debt modification resulting in debt discount	(185,092)	223,398
Issuance (amortization) of warrants with promissory notes resulting in debt discount	(3,101,780)	3,391,308

15. EARNINGS (LOSS) PER SHARE OF COMMON STOCK

The following table sets forth the computation of weighted-average shares outstanding for calculating basic and diluted earnings per share (EPS):

	Nine months ended February 28,		Three months ended February 28,	
	2011	2010	2011	2010
Weighted average shares-basic	12,041,233	8,621,017	18,480,738	8,738,711
Effect of dilutive securities	*	*	*	*
Weighted average shares—diluted	12,041,233	8,621,017	18,480,738	8,738,711

Basic EPS and diluted EPS for the three and nine months ended February 28, 2011 and 2010 have been computed by dividing the net income (loss) by the weighted average shares outstanding. The weighted average numbers of shares of common stock outstanding includes exchangeable shares and shares to be issued under the Plan of Arrangement.

* All outstanding options aggregating 2,303,833 incremental shares, and 955,362 warrants, have been excluded from the February 28, 2011 (all outstanding options aggregating 1,519,406 incremental shares, 955,362 warrants and 1,216,667 share underlying the convertible promissory notes from the February 28, 2010) computation of diluted EPS from continuing operations as they are anti-dilutive due to the losses generated in 2011 and 2010.

16. COMMITMENTS

From time to time the Company may be a party to lawsuits in the normal course of our business. Litigation can be unforeseeable, expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on the Company's business, operating results, or financial condition. Currently there are no known matters.

17. INCOME TAXES

The Company has identified several tax jurisdictions because it has operations in United States, Canada, and the United Kingdom. Based on the Company's evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company's consolidated financial statements. The income tax expense for the nine months ended February 28, 2011 and 2010, reflects a year to date effective tax rate of negative 0.14% and 1.35% respectively. These estimated effective tax rates for 2011 and 2010 differ from the statutory rate of 35% due the Company's full valuation allowance position as they are not recognizing the future tax benefit of historic losses.

18. RESTRUCTURING CHARGES RELATED TO CONSOLIDATION OF OPERATIONS

In accordance with accounting guidance for costs associated with asset exit or disposal activities, restructuring costs are recorded as incurred. Restructuring charges for employee workforce reductions are recorded upon employee notification.

During the nine months ended February 28, 2011 restructuring expenses included charges of approximately \$2,313,000 related to workforce reductions and other expenses related to consolidating certain parts of its operations from Ronkonkoma, N.Y. and Hauppauge, N.Y. to its new leased facility in Windber, P.A. and from consolidating its two wholly-owned subsidiaries in Ottawa, Canada. The Company also realized impairment charges of approximately \$414,000 on leasehold improvements from Ronkonkoma, and Endicott N.Y. and incurred approximately \$27,000 in lease charge commitments related to its effort to consolidate its two wholly-owned subsidiaries in Ottawa, Canada into one location. Management continues to evaluate whether other related assets have been impaired, and has concluded that there should be no additional impairment charges as of February 28, 2011.

As of February 28, 2011, the following table represents the details of restructuring charges:

	Workshare Reduction Cost
Balance, May 31, 2010	\$ 524,595
Restructuring charges	2,340,296
Write-offs of leasehold improvements	414,019
Total accumulated restructuring charges at November 30, 2010	3,278,910
Cash payments	2,769,413
Non-cash charges	414,019
Balance, February 28, 2011	<u>\$ 95,478</u>

The remaining balance at February 28, 2011 is included in accounts payable and accrued liabilities.

19. SEGMENT INFORMATION

The Company follows the authoritative guidance on the required disclosures for segments which establish standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in financial reports. The guidance also establishes standards for related disclosures about products and services, geographic areas and major customers.

The guidance uses a management approach for determining segments. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. The Company's operations are conducted in two principal business segments: Systems and Subsystems and Secure Communications. Inter-segment sales are presented at their market value for disclosure purposes.

<u>Nine months ended February 28, 2011</u>	<u>Systems and Subsystems</u>	<u>Secure Communications</u>	<u>Corporate</u>	<u>Inter Segment Eliminations</u>	<u>Total</u>
Sales to external customers	\$ 66,903,082	\$ 12,672,789	\$ —	\$ —	\$ 79,575,871
Inter-segment sales	—	—	—	—	—
Total revenue	<u>66,903,082</u>	<u>12,672,789</u>	<u>—</u>	<u>—</u>	<u>79,575,871</u>
Operating income (loss) before expenses below:	5,804,565	(1,476,546)	—	—	4,328,019
Corporate - head office expenses	—	—	3,347,657	—	3,347,657
Corporate - acquisition related charges	—	—	6,079,382	—	6,079,382
Depreciation and amortization	1,150,830	332,690	93,805	—	1,577,325
Other (income) expenses	(573,263)	41,916	5,507,217	—	4,975,870
Income tax expense	13,287	—	—	—	13,287
Net income (loss) from continuing operations	5,213,611	(1,851,152)	(15,028,061)	\$ —	(11,665,602)
Income from discontinued operations, net of tax	114,315	—	—	—	114,315
Net income (loss)	<u>\$ 5,327,926</u>	<u>\$ (1,851,152)</u>	<u>\$ (15,028,061)</u>	<u>\$ —</u>	<u>\$ (11,551,287)</u>
Segment assets—as of February 28, 2011	\$165,026,091	\$ 11,478,523	\$ 8,222,804	\$ —	\$184,727,418
Goodwill included in assets—as of February 28, 2011	\$ 87,049,524	\$ —	\$ —	\$ —	\$ 87,049,524
Capital expenditures, to February 28, 2011	\$ 1,125,010	\$ 136,072	\$ 71,780	\$ —	\$ 1,332,862

<u>Nine months ended February 28, 2010</u>	<u>Systems and Subsystems</u>	<u>Secure Communications</u>	<u>Corporate</u>	<u>Inter Segment Eliminations</u>	<u>Total</u>
Sales to external customers	\$ 23,942,423	\$ 14,487,143	\$ —	\$ —	\$ 38,429,566
Inter-segment sales	—	—	—	—	—
Total revenue	<u>23,942,423</u>	<u>14,487,143</u>	<u>—</u>	<u>—</u>	<u>38,429,566</u>
Operating income (loss) before expenses below:	1,646,232	(2,579,959)	—	—	(933,727)
Corporate - head office expenses	—	—	1,082,062	—	1,082,062
Corporate - acquisition related charges	—	—	2,023,314	—	2,023,314
Depreciation and amortization	375,316	315,730	2,471	—	693,517
Other (income) expenses	(919,836)	48,568	(303,138)	—	(1,174,406)
Income tax expense (benefit)	28,092	1,560	7,582	—	37,234
Net income (loss) from continuing operations	2,162,660	(2,945,817)	(2,812,291)	\$ —	(3,595,448)
Loss from discontinued operations, net of tax	(5,755,193)	—	—	—	(5,755,193)
Net income (loss)	<u>\$ (4,642,533)</u>	<u>\$ (2,945,817)</u>	<u>\$ (1,762,291)</u>	<u>\$ —</u>	<u>\$ (9,350,641)</u>
Segment assets—as of May 31, 2010	\$ 63,641,687	\$ 12,350,457	\$ 2,618,312	\$ —	\$ 78,610,456
Goodwill included in assets—as of May 31, 2010	\$ 8,461,889	\$ —	\$ —	\$ —	\$ 8,461,889
Capital expenditures, to February 28, 2010	\$ 496,363	\$ 44,788	\$ 4,717	\$ —	\$ 545,868

<u>Three months ended February 28, 2011</u>	<u>Systems and Subsystems</u>	<u>Secure Communications</u>	<u>Corporate</u>	<u>Inter Segment Eliminations</u>	<u>Total</u>
Sales to external customers	\$ 20,172,072	\$ 4,381,163	\$ —	\$ —	\$ 24,553,634
Inter-segment sales	—	—	—	—	—
Total revenue	<u>20,172,072</u>	<u>4,381,163</u>	<u>—</u>	<u>—</u>	<u>24,553,634</u>

<u>Three months ended February 28, 2011</u>	<u>Systems and Subsystems</u>	<u>Secure Communications</u>	<u>Corporate</u>	<u>Inter Segment Eliminations</u>	<u>Total</u>
Operating income (loss) before expenses below:	1,090,189	(463,937)	—	—	626,252
Corporate - head office expenses	—	—	1,072,965	—	1,072,965
Corporate - acquisition related charges	—	—	6,079,382	—	6,079,382
Depreciation and amortization	582,841	127,924	12,041	—	722,806
Other (income) expenses	2,940	37,792	3,239,642	—	3,280,374
Income tax expense	100	—	—	—	100
Net income (loss) from continuing operations	504,308	(629,653)	(10,404,031)	\$ —	(10,529,376)
Loss from discontinued operations, net of tax	(17,963)	—	—	—	(17,963)
Net income (loss)	\$ 486,345	\$ (629,653)	\$ (10,404,031)	\$ —	\$ (10,547,340)
Capital expenditures, to February 28, 2011	\$ 313,113	\$ 16,419	\$ —	\$ —	\$ 329,532
<u>Three months ended February 28, 2010</u>	<u>Systems and Subsystems</u>	<u>Secure Communications</u>	<u>Corporate</u>	<u>Inter Segment Eliminations</u>	<u>Total</u>
Sales to external customers	\$12,437,378	\$ 5,038,298	\$ —	\$ —	\$ 17,475,676
Inter-segment sales	—	—	—	—	—
Total revenue	12,437,378	5,038,298	—	—	17,475,676
Operating income (loss) before expenses below:	1,683,440	(1,925,550)	—	—	(242,110)
Corporate - head office expenses	—	—	661,242	—	661,242
Corporate - acquisition related charges	—	—	881,517	—	881,517
Depreciation and amortization	107,193	177,807	824	—	285,823
Other (income) expenses	(4,248)	(309,707)	897,597	—	583,642
Income tax expense (benefit)	4,480	125	7,582	—	12,187
Net income (loss) from continuing operations	1,576,015	\$ (1,793,775)	(2,448,762)	\$ —	(2,666,522)
Loss from discontinued operations, net of tax	(3,967,601)	—	—	—	(3,967,601)
Net income (loss)	\$ (3,441,586)	\$ (1,793,775)	\$ (1,398,762)	\$ —	\$ (6,634,123)
Capital expenditures, to February 28, 2010	\$ 419,572	\$ —	\$ 4,717	\$ —	\$ 424,289

20. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 14, 2011, the date the financial statements were issued, and up to the time of filing of the financial statements with the Securities and Exchange Commission.

On March 28, 2011, the Company issued its new President and Chief Operating Officer 300,000 shares of API's common stock. The stock was issued under and is subject to the terms and conditions of the Plan. Under the terms of the Plan, 140,019 of these shares were reacquired through the withholding of shares to pay employee tax obligations upon the issuance of the shares.

On March 18, 2011, the Company entered into a Common Stock Purchase Agreement (the "Purchase Agreement"), by and among the Company and the Purchasers (as defined therein), pursuant to which the Company has issued 17,095,102 shares of its common stock in a private placement for a purchase price of \$6.00 per share. The Company will receive aggregate net proceeds of approximately \$100 million from the private placement.

On March 28, 2011, the Company announced that it, Spectrum Control, Inc. ("Spectrum"), and Erie Merger Corp. ("Merger Sub"), a wholly owned subsidiary of the Company, entered into an Agreement and Plan of Merger (the "Spectrum Agreement") providing for the acquisition of Spectrum by the Company ("the Spectrum Merger").

Pursuant to the terms and conditions of the Spectrum Agreement, which has been approved by the boards of directors of all parties, Merger sub will be merged with and into Spectrum. Upon effectiveness of the Spectrum Merger, each outstanding share of common stock of Spectrum, other than shares owned by Spectrum or their subsidiaries, will be converted into the right to receive \$20.00 in cash, without interest. Also upon the effectiveness of the Spectrum Merger, each outstanding option to purchase common stock of Spectrum will be accelerated so that it becomes fully vested and shall receive in cash the product of the excess, if any, of \$20.00 less the exercise price per option multiplied times the number of shares of Spectrum common stock issuable upon exercise of such option. The total purchase price is approximately \$270,000,000.

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

Business Overview of API Technologies Corp.

On March 28, 2011, we announced that we had entered into a definitive merger agreement ("Spectrum Agreement") providing for the acquisition of Spectrum Control, Inc. by API.

Pursuant to the terms and conditions of the Spectrum Agreement, which has been approved by the boards of directors of all parties, Merger Sub will be merged with and into Spectrum. Upon effectiveness of the Spectrum Merger, each outstanding share of common stock of Spectrum, other than shares owned by Spectrum or their subsidiaries, will be converted into the right to receive \$20.00 in cash, without interest. Also upon the effectiveness of the Spectrum Merger, each outstanding option to purchase common stock of Spectrum will be accelerated so that it becomes fully vested and shall receive in cash the product of the excess, if any, of \$20.00 less the exercise price per option multiplied times the number of shares of Spectrum common stock issuable upon exercise of such option. The total purchase price is approximately \$270,000,000.

Consummation of the Spectrum Merger is subject to various customary conditions, including adoption of the Spectrum Agreement by Spectrum's shareholders and the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. In addition, at least 95% of Spectrum option holders must consent to the treatment of the options in the manner described above.

The Spectrum Agreement contains customary covenants, including covenants (1) providing for the parties to use all reasonable efforts to cause the closing of the Spectrum Merger to be completed, (2) requiring Spectrum to call and hold a meeting of its shareholders to adopt the Spectrum Agreement as promptly as practicable, and (3) requiring that Spectrum comply with certain notification and other requirements and deadlines while taking actions that could reasonably be expected to facilitate a competing takeover proposal during and after the 40 day "go-shop" period (as described below).

The Spectrum Agreement provides for a 40-day "go-shop" period, beginning with the signing of the Spectrum Agreement, during which Spectrum may solicit, provide information to, and engage in discussions with third parties with respect to, alternative acquisition proposals. After the 40-day "go-shop" period, Spectrum will be subject to "no-shop" restrictions on its ability to solicit alternative acquisition proposals, provide information to and engage in discussions with third parties. Subject to certain exceptions under the Spectrum Agreement, Spectrum must keep API informed regarding proposals from and communications with other parties during both the "go-shop" and "no-shop" periods. Prior to terminating the Spectrum Agreement to accept an offer from a third party that Spectrum's board of directors determines is superior to the Spectrum Merger, Spectrum is required to provide us with certain notice and match rights with respect to such superior offer.

The Spectrum Agreement contains certain termination rights for each party. The Spectrum Agreement provides that, upon the termination of the Spectrum Agreement under specified circumstances, generally including a competitive takeover proposal by a third party or a change in Spectrum's board's recommendation of the Spectrum Merger to its shareholders, Spectrum may be required to pay us a termination fee of \$9,150,000. If requirements relating to the "go-shop" period are complied with and Spectrum terminates the Spectrum Agreement to enter into superior proposal to acquire Spectrum, Spectrum must pay a termination fee in the amount of \$5,050,000. In addition, if the Spectrum Agreement is terminated under certain circumstances, Spectrum must reimburse us for reasonable out-of-pocket fees and expenses incurred by us in connection with the Spectrum Agreement up to an aggregate amount of \$2,750,000. If the Spectrum Agreement is voted on and not approved by the Spectrum shareholders, Spectrum must reimburse us for reasonable out-of-pocket fees and expenses incurred by us in connection with the Spectrum Agreement up to an aggregate amount of \$1,000,000.

Concurrently, and in connection with entering into the Spectrum Agreement, the Company entered into a commitment letter (the "Commitment Letter") with Morgan Stanley Senior Funding, Inc. ("MS") pursuant to which, subject to the conditions set for therein, MS committed to provide the Company new senior secured credit facilities (the "Senior Credit Facilities") consisting of a revolving loan facility of up to \$15,000,000 and one or more term loan facilities of up to \$200,000,000. The Senior Credit Facilities are contemplated to be used to finance a portion of the purchase price of the Spectrum Merger (including to refinance any indebtedness under the Company's working capital facility that is outstanding at the time the Senior Credit Facilities are entered into), to pay certain fees and expenses in connection with the Spectrum Merger and the Senior Credit Facilities, and for working capital and general corporate purposes. The commitment of MS under the Commitment Letter is subject to certain conditions, including the consummation of the Spectrum Merger and the absence of a material adverse effect with respect to Spectrum under the Spectrum Agreement.

The information in this Quarterly Report on Form 10-Q does not give effect to the Spectrum Agreement.

On January 9, 2011, API entered into an Agreement and Plan of Merger, (the "Merger Agreement") with Vintage Albany Acquisition, LLC, a Delaware limited liability company ("Vintage") and API Merger Sub, Inc., a New York corporation ("Sub"), pursuant to which we acquired SenDEC Corp., a New York corporation ("SenDEC") (the "Merger"). SenDEC is a leading defense electronics manufacturing services company headquartered in Fairport, New York. In the Merger, we acquired all of the equity of SenDEC, which included SenDEC's electronics manufacturing operations and approximately \$30 million of cash, in exchange for the issuance of 22,000,000 shares of API Common Stock to Vintage.

The Merger closed on January 21, 2011, immediately after the January 21, 2011 closing of the acquisition by Vintage of SenDEC, pursuant to the First Merger Agreement among Vintage, SenDEC, and South Albany Acquisition Corp., and Kenton W. Fiske, as Stockholder Representative. API succeeded to the rights, and assumed the obligations, of Vintage under the First Merger Agreement among Vintage, including without limitation, the Earn-Out Payment and the Special Payment. In addition, certain SenDEC employees will be eligible for a bonus under a management bonus plan of up to \$11 million, potentially payable in three installments through July 31, 2013, based on achievement of certain financial milestones of SenDEC.

We design, develop and manufacture highly engineered solutions, systems, secure communications and electronic components for military and aerospace applications, including mission critical information systems and technologies. We own and operate several state-of-the-art manufacturing facilities in North America and the United Kingdom. Our customers, which include military prime contractors, and the contract manufacturers who work for them, in the United States, Canada, the United Kingdom and various other countries in the world, outsource many of their defense electronic components and systems to us as a result of the combination of our design, development and manufacturing expertise.

Operating through two segments, Systems and Subsystems, and Secure Communications, we are positioned as a total engineered solution provider to various world governments, as well as military, defense, aerospace and homeland security contractors. We provide a wide range of electronic manufacturing services from prototyping to high volume production, with specialization in high speed surface mount circuit card assembly for military and commercial organizations. Our manufacturing and design products have recently been expanded to include secure communication products, including ruggedized computers and peripherals, network security appliances, and TEMPEST Emanation prevention products.

Prior to the acquisition of the assets of Cryptek, our operations were conducted in two reportable segments which were distinguished by geographic location in Canada and United States. Both geographical segments designed and manufactured electronic components.

The July 2009 Cryptek acquisition expanded our manufacturing and design of products to include secured communication products, including ruggedized computer products, network security appliances, and TEMPEST Emanation prevention products.

The acquired product lines from the KGC Companies contributed approximately \$44,652,000 to net sales for the nine months ended February 28, 2011.

Following the acquisitions of the assets of Cryptek and the assets of the KGC Companies in July 2009 and January 2010, respectively, API had operating facilities in Ronkonkoma and Hauppauge, New York, Somerset, New Jersey, and Ottawa, Ontario, as well as Windber, Pennsylvania, Sterling, Virginia, South Plainfield, New Jersey, and Gloucester, United Kingdom. Commencing in May 2010, we began a cost cutting initiative to rationalize the number of facilities and personnel, resulting in the consolidation of our manufacturing operations from eight facilities into three facilities. This process was completed in December 2010 and is expected to result in the reduction of approximately \$4 million in annual costs. In connection with the SenDEC acquisition, we now also have a manufacturing facility in Fairport, New York.

On June 15, 2010, we closed the asset sale of our nanotechnology research and development subsidiary based in Somerset, New Jersey. This business had historically been unprofitable and the closure is expected to improve our operating results and allow us to deploy our capital and management resources on our expanding defense business.

Effective September 13, 2010, the Company entered into a Proxy Agreement with the DoD. Following the Merger, the Proxy Agreement was terminated.

Operating Revenues

We derive operating revenues from the sales in two principal business segments: Systems and Subsystems, and Secure Communications. The asset acquisition of Cryptek on July 7, 2009 resulted in the creation of our new Secure Communications product line, and the acquisition of SenDEC on January 21, 2011 and the asset acquisition of the KGC Companies on January 20, 2010 significantly expanded our Systems and Subsystems revenues. Our customers are located primarily in the United States, Canada and the United Kingdom, but we also sell products to customers located throughout the world, including NATO and European Union countries.

Systems and Subsystems Revenue includes high speed surface mount circuit card assembly for military prime contractors and advanced weapon systems including missiles, counter-IED RF jamming devices, unmanned air, ground and robotic systems. Other products include naval aircraft landing and launching systems, radar systems alteration, aircraft ground support equipment, Aircraft Radar Indication Systems using Liquid Crystal Display (LCD) technology and other mission critical systems and components.

The main demand today for our Systems and Subsystems products come from various world governments, including militaries, defense organizations, aerospace, homeland security and prime defense contractors.

Secure Communications Revenue includes revenues derived from the manufacturing of TEMPEST and Emanation products and services, ruggedized computers and peripherals, network security appliances and software. The principal market for these products are the defense industries of the United States, Canada and the United Kingdom and other NATO and European Union countries. These products and systems include: TEMPEST and Emanation products and services, ruggedized computers and peripherals, network security appliances and software.

Cost of Revenue

We conduct all of our design and manufacturing efforts in the United States, Canada and United Kingdom. Cost of goods sold primarily consists of costs that were incurred to design, manufacturer, test and ship the products. These costs include raw materials, including freight, direct labor, tooling required to design and build the parts, and the cost of testing (labor and equipment) the products throughout the manufacturing process and final testing before the parts are shipped to the customer. Other material costs include provision for obsolete and slow moving inventory, and restructuring charges related to the consolidation of operations.

Operating Expenses

Operating expenses consist of selling, general, administrative expenses, research and development, business acquisition and related charges and other income or expenses.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses include compensation and benefit costs for all employees, including sales and customer service, sales commissions, executive, finance and human resource personnel. Also included in SG&A, is compensation related to stock-based awards to employees and directors, professional services, for accounting, legal and tax, information technology, rent and general corporate expenditures.

Research and Development Expenses

Research and development (“R&D”) expenses represent the cost of our development efforts. R&D expenses include salaries of engineers, technicians and related overhead expenses, the cost of materials utilized in research, and additional engineering or consulting services. R&D costs are expensed as incurred.

Business Acquisition and Related Charges

Business acquisition charges primarily represent costs of engaging outside legal, accounting, due diligence, business valuation consultants and accelerated stock option expenses related to business combinations. Related charges include costs incurred related to our efforts to consolidate operations of recently acquired and legacy businesses.

Other Income (Expense)

Other income (expense) consists of interest income on cash and cash equivalents and marketable securities, interest expense on notes payable, amortization of note discounts from debt extinguishments, operating loans and capital leases, gains or losses on disposal of property and equipment, and gains or losses on foreign currency transactions. Other income also includes gains related to the sales of fixed assets held for sale and acquisition-related gains when net assets acquired exceed the purchase price of the business acquisition.

Backlog

Management uses a number of indicators to measure the growth of the business. One measure is sales backlog. Our sales backlog at February 28, 2011 was approximately \$66,900,000 compared to \$82,000,000 at February 28, 2010, a decrease of approximately \$15,100,000. The decrease is primarily attributable to the completion of a major contract for a large U.S. customer during the last twelve months, partially offset by the additional backlog from SenDEC, which was acquired in January 2011.

Our backlog figures represent confirmed customer purchase orders that we had not shipped at the time the figures were calculated and that have a delivery date within a 12-month period. We have very little insight on the timing of new contract releases and, as such, the backlog can increase or decrease significantly based on timing of customer purchase orders.

Results of Operations for the Nine Months Ended February 28, 2011 and 2010

The following discussion of results of operations is a comparison of our nine months ended February 28, 2011 and 2010.

Operating Revenue

	Nine months ended February 28,		
	2011	2010	% Change
Revenues by segments:			
Systems and Subsystems	\$66,903,082	\$23,942,423	179.4 %
Secure Communications	12,672,789	14,487,143	(12.5) %
	<u>\$79,575,871</u>	<u>\$38,429,566</u>	<u>107.1 %</u>

We recorded a 107.1% increase in revenues for the nine months ended February 28, 2011 over the same period in 2010. The increase is mainly attributed to the acquisition of SenDEC on January 21, 2011 and the acquisition of the assets of the KGC Companies completed on January 20, 2010. The Secure Communication results include nine months results compared to less than eight months for the nine months ended February 28, 2010, after the July 7, 2009 acquisition of the Cryptek assets. During the nine months ended February 28, 2011, our revenues were negatively impacted by the late receipt of customer sales orders in our Systems and Subsystems segment that delayed revenues, as well as lower throughput while manufacturing operations from our New York facility were physically moved into our Pennsylvania location as part of our restructuring initiatives. The restructuring was completed by February 28, 2011 and we have returned to normal capacity. We were also impacted by a decrease in our Secure Communication revenues primarily as a result of delays in finalizing contracts that will ship in the next quarter.

Operating Expenses

Cost of Revenue and Gross Margin

	Nine months ended February 28,	
	2011	2010
Gross margin by segments:		
Systems and Subsystems	21.9%	29.8%
Secure Communications	26.5%	15.9%
Total	22.6%	24.6%

Our combined gross margin for the nine months ended February 28, 2011 decreased by approximately 1.8 percentage points compared to the nine months ended February 28, 2010. Gross profit margin varies from period to period and can be affected by a number of factors, including product mix, new product introduction, production efficiency and restructuring activities. Overall cost of revenue from continuing operations as a percentage of sales increased in the nine months ended February 28, 2011 from 75.4% to 77.4% compared to the same period in 2010. The Systems and Subsystems segment cost of sales increased 7.9% compared to the same period in 2010, mainly as a result of product mix from the acquisition of SenDEC and the assets of the KGC Companies during the nine months ended February 28, 2011 compared to the same period in 2010. The Secure Communications segment realized a decrease in cost of sales mainly as a result of the Company realizing benefits achieved through the consolidation efforts and cost cutting measures. Total cost of revenue from continuing operations for the nine months ended February 28, 2011 included approximately \$851,000 of restructuring costs.

General and Administrative Expenses

General and administrative expenses increased to approximately \$10,881,000 for the nine months ended February 28, 2011 from \$7,344,000 for the nine months ended February 28, 2010. The increase is primarily a result of the addition of SenDEC in January 2011 and the KGC Companies in January 2010, which increased general and administrative expenses by approximately \$382,000 and \$4,410,000 for the nine months ended February 28, 2011, respectively, partially offset by cost reductions following restructuring initiatives. As a percentage of sales, general and administrative expenses were 13.7% for the nine months ended February 28, 2011, compared to 19.1% for the nine months ended February 28, 2010.

The major components of general and administrative expenses are as follows:

	Nine months ended February 28,			
	2011	% of sales	2010	% of sales
Accounting and Administration	\$3,286,915	4.1%	\$2,274,631	5.9%
Professional Services	\$1,341,500	1.7%	\$ 853,175	2.2%

Selling Expenses

Selling expenses from continuing operations increased to \$4,085,616 for the nine months ended February 28, 2011 from \$2,512,847 for the nine months ended February 28, 2010. The increase was largely due to the inclusion of selling expenses related to the acquisition of SenDEC and the asset acquisition of the KGC Companies on January 21, 2011 and January 20, 2010, respectively. As a percentage of sales, selling expenses were 5.1% for the nine months ended February 28, 2011, compared to 6.5% for the nine months ended February 28, 2010.

The major components of selling expenses are as follows:

	Nine months ended February 28,			
	2011	% of sales	2010	% of sales
Payroll Expense – Sales	\$2,456,133	3.1%	\$1,465,043	3.8%
Advertising	\$ 511,470	0.6%	\$ 628,328	1.6%

Research and Development Expenses

Research and development costs from continuing operations of \$1,735,639 for the nine months ended February 28, 2011 remained comparable to \$1,791,896 for the nine months ended February 28, 2010.

Business acquisition and related charges

Business acquisition charges primarily represent costs of engaging outside legal, accounting, due diligence, business valuation consultants and accelerated stock option expenses related to business combinations. For the nine months ended February 28, 2011, business acquisition and related charges were approximately \$6,079,000 associated with the completion of the Merger Agreement, compared to approximately \$2,023,000 for the nine months ended February 28, 2010 associated with the asset acquisitions of Cryptek and the KGC Companies.

Operating Income (Loss)

We posted an operating loss from continuing operations for the nine months ended February 28, 2011 of approximately \$6,676,000 compared to an operating loss of approximately \$4,732,000 for the nine months ended February 28, 2010. The increase in operating loss of approximately \$1,944,000 is attributed to the higher acquisition costs from the SenDEC acquisition compared to the acquisition costs of Cryptek and the KGC Companies, partially offset by the improved overall results in our Secure Communications segment.

Other (Income) and Expense

Total other expense for the nine months ended February 28, 2011 amounted to \$4,975,870, compared to other income of \$1,174,406 for the nine months ended February 28, 2010.

The increase in other expense is largely attributable to an increase in interest expense of approximately \$2,378,000 from higher debt levels throughout the nine month period, and \$2,776,000 of non-cash expense related to the amortization of note discounts on \$20,000,000 promissory notes repaid and \$3,650,000 Convertible Notes converted to shares in January 2011. The increase in net other expense was also attributable to reduced other income. The nine months ended February 28, 2011 included approximately \$960,000 of gains on the sale of the Company's buildings in Hauppauge and Endicott, N.Y. and other fixed assets, while the nine months ended February 28, 2010 included a gain of approximately \$993,000 on the acquisition of the assets of Cryptek, a gain of approximately \$80,000 on the sale of a parcel of land in Ronkonkoma, N.Y. and a gain of approximately \$845,000 on the sale of a building the Company owned in Ottawa, Canada.

Income Taxes

Income taxes amounted to an expense of approximately \$13,000 for the nine months ended February 28, 2011, which is consistent with the nine months ended February 28, 2010. In view of the prior years' losses and the uncertainty relating to our future profitability we have provided for 100% valuation allowance resulting in no deferred tax assets on a net basis. However, in future periods there is potential for the valuation allowance to be lowered based upon operating results.

Income (Loss) From Discontinued Operations

We generated a gain from discontinued operations of approximately \$114,000 for the nine months ended February 28, 2011, compared to a loss of approximately \$5,755,000 in the same period of fiscal 2010. The gain is attributable to the sale of the assets of our nanotechnology operations in June 2010 compared to the on-going operations of the nanotechnology business and write-down of long-lived assets to net realizable value for the nine months ended February 28, 2010.

Net Loss

We recorded a net loss for the nine months ended February 28, 2011 of approximately \$11,551,000, compared to a net loss of approximately \$9,351,000 for the nine months ended February 28, 2010. The increase in the net loss is largely due to the acquisition of SenDEC on January 21, 2011, higher interest expense and the non-cash expense related to the amortization of note discounts on debt extinguished (\$20,000,000 promissory notes repaid and \$3,650,000 convertible debt converted to shares in January 2011).

Results of Operations for the Three Months Ended February 28, 2011 and 2010

The following discussion of results of operations is a comparison of our three months ended February 28, 2011 and 2010.

Operating Revenue

	Three months ended February 28,		
	2011	2010	% Change
Revenues by segments:			
Systems and Subsystems	\$20,172,072	\$12,437,379	62.2 %
Secure Communications	4,381,563	5,038,297	(13.0)%
	<u>\$24,553,634</u>	<u>\$17,475,676</u>	<u>40.5 %</u>

We recorded a 40.5% increase in revenues for the three months ended February 28, 2011 over the same period in 2010. The increase is mainly attributed to approximately \$8,600,000 of revenue related to the acquisition of SenDEC on January 21, 2011. Despite the impact of a full quarter of the KGC acquisition, our Systems and Subsystems revenues were negatively impacted by the late receipt of customer sales orders that will delay related revenues, as well as lower throughput while manufacturing operations from our New York facility were physically moved into our Pennsylvania location as part of our restructuring initiatives. The move was completed by February 28, 2011 and we have returned to normal capacity. During the three months ended February 28, 2011, there was also a decrease in our Secure Communication revenues primarily as a result of delays in finalizing certain contracts that will ship in the next quarter.

Operating Expenses

Cost of Revenue and Gross Margin

	Three months ended February 28,	
	2011	2010
Gross margin by segments:		
Systems and Subsystems	17.8%	30.6%
Secure Communications	24.1%	12.8%
Total	18.9%	25.5%

Our combined gross margin for the three months ended February 28, 2011 decreased by approximately 6.6 percentage points compared to the three months ended February 28, 2010. Gross profit margin varies from period to period and can be affected by a number of factors, including product mix, new product introduction, production efficiency and restructuring activities. Overall cost of revenue from continuing operations as a percentage of sales increased in the three months ended February 28, 2011 from 74.5% to 81.1% compared to the same period in 2010. The Systems and Subsystems segment cost of sales increased 12.8% compared to the same period in 2010, mainly as a result of product mix from the acquisition of SenDEC and the results of operations from the KGC Companies during the three months ended February 28, 2011, compared to the same period in 2010. The Secure Communications segment realized a decrease in cost of sales mainly as a result of the Company realizing benefits achieved through the consolidation efforts and cost cutting measures. Total cost of revenue from continuing operations for the three months ended February 28, 2011 include approximately \$93,000 of restructuring costs.

General and Administrative Expenses

General and administrative expenses of approximately \$3,225,000 for the three months ended February 28, 2011 was comparable to approximately \$3,272,000 for the three months ended February 28, 2010. Despite an increase as a result of the addition of SenDEC in January 2011 and the KGC Companies in January 2010, which increased general and administrative expenses by approximately \$382,000 and \$876,000 for the three months ended February 28, 2011, respectively, there were comparable decreases in expenses as a result of cost reductions following restructuring initiatives. As a percentage of sales, general and administrative expenses were 13.1% for the three months ended February 28, 2011, compared to 18.7% for the three months ended February 28, 2010.

The major components of general and administrative expenses are as follows:

	Three months ended February 28,			
	2011	% of sales	2010	% of sales
Accounting and Administration	\$962,708	3.9%	\$984,301	5.6%
Professional Services	\$408,807	1.7%	\$363,807	2.1%

Selling Expenses

Selling expenses from continuing operations increased to \$1,841,693 for the three months ended February 28, 2011 from \$847,160 for the three months ended February 28, 2010. The increase was largely due to the inclusion of selling expenses related to the acquisition of SenDEC and the asset acquisition of the KGC Companies on January 21, 2011 and January 20, 2010, respectively. As a percentage of sales, selling expenses were 7.5% for the three months ended February 28, 2011, compared to 4.8% for the three months ended February 28, 2010.

The major component of selling expenses is as follows:

	Three months ended February 28,			
	2011	% of sales	2010	% of sales
Payroll Expense – Sales	\$880,459	3.6%	\$595,602	3.4%
Commissions	\$395,394	1.6%	\$157,836	0.9%

Research and Development Expenses

Research and development costs from continuing operations decreased to \$481,090 for the three months ended February 28, 2011 from \$1,011,022 for the three months ended February 28, 2010. The decrease is due to lower research and development costs associated with the Systems and Subsystems segment as the U.S. manufacturing operations were consolidated into our Pennsylvania location.

Business acquisition and related charges

Business acquisition charges primarily represent costs of engaging outside legal, accounting, due diligence, business valuation consultants and accelerated stock option expenses related to business combinations. For the three months ended February 28, 2011, business acquisition and related charges were approximately \$6,079,000 compared to approximately \$882,000 for the three months ended February 28, 2010. The increase is associated with the costs related to the Merger Agreement in the three months ended February 28, 2011.

Operating Income (Loss)

We recorded an operating loss from continuing operations for the three months ended February 28, 2011 of approximately \$5,248,000 compared to a loss of approximately \$2,070,000 for the three months ended February 28, 2010. The increase in operating loss of approximately \$5,178,000 is attributed to the acquisition costs of SenDEC on January 21, 2011 and lower overall results in our Systems and Subsystems segment due to delays in the quarter while manufacturing operations were physically moved into our Pennsylvania location.

Other (Income) and Expense

Total other expense for the three months ended February 28, 2011 amounted to approximately \$3,280,000 compared to other expense of approximately \$584,000 for the three months ended February 28, 2010.

The increase in other expense is largely attributable to \$2,776,000 of non-cash expense related to the amortization of note discounts on debt extinguishment (\$20,000,000 promissory notes repaid and \$3,650,000 Convertible Notes converted to shares in January 2011). The balance of the increase in other expense was attributable to higher interest costs on debt balances that were outstanding for a longer period of time, including the \$20,000,000 promissory notes and the \$9,100,000 Amended Note, partially offset by a \$160,000 gain on the sale of fixed assets in Ronkonkoma N.Y. during the three months ended February 28, 2011.

Income Taxes

Income taxes for the three months ended February 28, 2011 were approximately \$0, compared to approximately \$12,000 for three months ended February 28, 2010. In view of the prior years' losses and the uncertainty relating to our future profitability we have provided for 100% valuation allowance resulting in no deferred tax assets on a net basis. However in future periods there is potential for the valuation allowance to be lowered based upon operating results.

Income (Loss) From Discontinued Operations

The loss from discontinued operations was approximately \$18,000 for the three months ended February 28, 2011, compared to a loss of approximately \$3,968,000 in the same period of fiscal 2010. During the three months ended February 28, 2010 the loss was attributable to the on-going operations of the nanotechnology business and a write-down of long-lived assets of discontinued operations to net realizable value of approximately \$2,782,000.

Net Loss

We recorded a net loss for the three months ended February 28, 2011 of approximately \$10,547,000, compared to a net loss of approximately \$6,634,000 for the three months ended February 28, 2010. The increase in the net loss is largely due to transaction costs of approximately \$8,855,000 related to the acquisition of SenDEC on January 21, 2011 that includes approximately \$6,079,000 of business acquisition and related charges and non-cash amortization of note discounts from debt extinguishment of \$2,776,000 related to the \$20,000,000 promissory notes repaid and \$3,650,000 Convertible Notes converted to shares during the quarter.

Liquidity and Capital Resources

The Nine Months Ended February 28, 2011 compared to the Nine Months Ended February 28, 2010

At February 28, 2011, we held cash and cash equivalents of \$13,176,000 compared to \$4,496,025 at May 31, 2010.

Cash used by continuing operating activities of approximately \$4,949,000 for the nine months ended February 28, 2011, was higher than cash used by continuing operations of approximately \$1,418,000 for the nine months ended February 28, 2010. During the nine months ended February 28, 2011 compared to the same period in 2010, the increase in cash used by continuing operating activities resulted primarily from an increase in the net loss due to higher acquisition related charges, higher interest payments, and a decrease in cash generated by changes in operating assets and liabilities.

Cash flows from continuing operations for the nine months ended February 28, 2011 were impacted by restructuring and business acquisition related cash charges of approximately \$7,421,000 (nine months ended February 28, 2010 – approximately \$2,607,000).

Cash generated by investing activities for the nine months ended February 28, 2011 consisted of net cash acquired in the Merger (SenDEC – \$32,353,000), proceeds on the sale of the assets of NanoOpto for approximately \$2,041,000 and proceeds from the sale of two manufacturing buildings and other fixed assets totaling approximately \$1,724,000, partially offset by the acquisition of capital assets of approximately \$1,332,000. Cash used in investing activities for the nine months ended February 28, 2010 consisted mainly of the acquisition of the assets of the KGC Companies for \$14,000,000 and approximately \$2,929,000 net cash outlay for the assets of Cryptek, and the acquisition of capital assets of approximately \$546,000, partially offset by proceeds from sale of a parcel of land the Company owned in Long Island, New York for proceeds of approximately \$951,000, the sale of a building the Company owned in Ottawa, Canada for proceeds of approximately \$1,871,000.

Cash flow used by financing activities for the nine months ended February 28, 2011 totaled approximately \$21,365,000, and resulted mainly from the repayment of \$20,000,000 promissory notes and certain capital lease obligations. During the nine months ended February 28, 2010 cash flow provided by financing consisted mainly of the net proceeds from the issuance of \$20,000,000 promissory notes in connection with the acquisition of the assets of the KGC Companies and the issuance of \$3,650,000 convertible debt in connection with the acquisition of the assets of Cryptek.

We believe that i) cash and cash equivalents of \$13,176,000, ii) additional net cash of approximately \$100 million raised by the private placement in March 2011, iii) funds available under our credit facilities as described in Note 8 of our financial statements included in this Form 10-Q, and iv) cash flows from operations, will be sufficient to satisfy our anticipated cash requirements for the next twelve months. These cash flow requirements over the next twelve months include the \$9.1 million short-term promissory note to the sellers of the KGC Companies. We have made indemnification claims against the Sellers under the Purchase Agreement. The Purchase Agreement gives us the right to offset the value of shares due to Sellers by the amount of our indemnification claims. We have notified the Sellers that we will repay the outstanding principal of the Amended Note and deliver any shares issuable to them once the indemnification claims have been settled. We continue to negotiate with the Sellers to resolve the outstanding issues and have sufficient funds to repay the Amended Note. Nonpayment of the Amended Note and non-delivery of the shares are due solely to the indemnification claims (see Note 10 of our unaudited consolidated financial statements in Item 1 of this Report).

Critical Accounting Policies and Estimates

We describe our significant accounting policies in Note 2 to the unaudited consolidated financial statements in Item 1 of this Report and the effects of recent accounting pronouncements in Note 3 to the unaudited consolidated financial statements in Item 1 of this Report. There were no significant changes in our accounting policies or critical accounting estimates since the end of the fiscal year ended May 31, 2010.

Off-Balance Sheet Arrangements

During fiscal 2010 and the nine months ended February 28, 2011, the Company did not have any off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

This document and the documents incorporated in this document by reference contain forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact contained in this document and the materials accompanying this document are forward-looking statements.

The forward-looking statements are based on the beliefs of management, as well as assumptions made by and information currently available to management. Frequently, but not always, forward-looking statements are identified by the use of the future tense and by words such as “believes,” “expects,” “anticipates,” “intends,” “will,” “may,” “could,” “would,” “projects,” “continues,” “estimates” or similar expressions. Forward-looking statements are not guarantees of future performance and actual results could differ materially from those indicated by the forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the Company or its industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements.

The forward-looking statements contained or incorporated by reference in this document are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (“Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (“Exchange Act”) and are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. These statements include declarations regarding our plans, intentions, beliefs or current expectations.

Management wishes to caution investors that any forward-looking statements made by or on behalf of the Company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. Among the important factors that could cause actual results to differ materially from those indicated by forward-looking statements are the risks and uncertainties described under “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended May 31, 2010, and below in Part II, Item 1A of this Report, and in our other filings with the SEC. These uncertainties and other risk factors include, but are not limited to: changing economic and political conditions in the United States and in other countries, the ability to effectively integrate acquired companies, war, changes in governmental spending and budgetary policies, governmental laws and regulations surrounding various matters such as environmental remediation, contract pricing, and international trading restrictions, customer product acceptance, continued access to capital markets, and foreign currency risks.

Management wishes to caution investors that other factors might, in the future, prove to be important in affecting the Company’s results of operations. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Forward-looking statements are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this document are made as of the date of this document and management does not undertake any obligation to update forward-looking statements to reflect new information, subsequent events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for Smaller Reporting Companies.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

We maintain “disclosure controls and procedures,” as such term is defined under Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the “Exchange Act”) reports is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Accounting Officer of the effectiveness of the design and operation of our disclosure controls and procedures as of February 28, 2011. Based on the foregoing, our Chief Executive Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of February 28, 2011.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives. However, our management, including the Chief Executive Officer and Chief Accounting Officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

(b) Changes in Internal Control over Financial Reporting

During the quarter ended February 28, 2011, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings nor is our property the subject of any material legal proceedings.

ITEM 1A. RISK FACTORS

Since the date of the filing of our Annual Report on Form 10-K for the year ended May 31, 2010, there have been no material changes to the risk factors described in Item 1A–“Risk Factors” of the Annual Report on Form 10-K for the year ended May 31, 2010, except we have added the following risk factors to address the acquisition of Spectrum Control Inc. (“Spectrum Agreement”).

Risks Relating to the Spectrum Agreement

Uncertainty about the Spectrum Agreement and diversions of management could harm us, whether or not the Spectrum Agreement is completed.

In response to the announcement of the Spectrum Agreement, existing or prospective customers of ours may delay or defer decisions concerning us or they may seek to change their existing business relationships with us. In addition, as a result of the Spectrum Agreement, current and prospective employees could experience uncertainty about their future with us. These uncertainties may impair our ability to retain, recruit or motivate key personnel. Completion of the Spectrum Agreement will also require a significant amount of time and attention from management. The diversion of management attention away from ongoing operations could adversely affect our business relationships. If the Spectrum Agreement is not completed as anticipated, the adverse effects of these uncertainties and the diversion of management could be exacerbated by the delay.

Failure to complete the Spectrum Agreement could adversely affect the price of our shares and our future business and financial results.

Completion of the Spectrum Agreement is subject to, among other things, approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the approval of the shareholders of Spectrum. There is no assurance that such approval will be received or that the other conditions necessary for completion of the Spectrum Agreement will be satisfied. In addition, the current market price of our common shares may reflect a market assumption that the Spectrum Agreement will occur, and a failure to complete the Spectrum Agreement could result in a negative perception by the market of us generally and a resulting decline in the market price of our common shares.

We have incurred and will continue to incur significant costs in connection with the Spectrum Agreement, whether or not we complete it.

We have incurred and expect to continue to incur significant costs related to the Spectrum Agreement. These expenses include financial advisory, legal and accounting fees and expenses, employee expenses, and other related charges. If we fail to complete the Spectrum Agreement, we will remain liable for certain of these transaction costs. We may also incur additional unanticipated expenses in connection with the Spectrum Agreement.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) No further disclosure required.

(b) Not applicable.

(c) The following table provides information with respect to the shares of common stock repurchased by us during the three month period ending February 28, 2011.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
December 1, 2010 – December 31, 2010	25,160	\$ 3.83	25,160(2)	687,271
January 1, 2011 – January 31, 2011	—	\$ —	—	687,271
February 1, 2011 – February 28, 2011	—	\$ —	—	687,271
Total	25,160	\$ 3.83	25,160	687,271

(1) In March 2010, the Board of Directors authorized a stock repurchase program under which we can repurchase up to approximately 831,250 shares of our common stock over a one-year period.

(2) Represents open market purchases made under the Company’s stock repurchase plan.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No further disclosure required.

ITEM 4. REMOVED AND RESERVED**ITEM 5. OTHER INFORMATION**

None.

ITEM 6. EXHIBITS

- 2.1 Amendment No. 1 to Asset Purchase Agreement, dated December 14, 2010, by and among API Technologies Corp., API Systems, Inc., API Defense, Inc., API Defense USA Inc., Currency, Inc., KII Inc., Kuchera Industries, LLC, William Kuchera, and Ronald Kuchera (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed with the SEC on December 16, 2010).
- 2.2 Agreement and Plan of Merger dated January 9, 2011 by and among API Technologies Corp., Vintage Albany Acquisition, LLC, and API Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed with the SEC on January 11, 2011).
- 2.3 Agreement and Plan of Merger by and Among Vintage Albany Acquisition, LLC, SenDEC Corp., South Albany Acquisition Corp. and, with respect to Article VII and Article VIII only, Kenton W. Fiske, as Stockholder Representative (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on January 27, 2011).
- 3.1 Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed with the SEC on January 4, 2011).
- 10.1 Amended and Restated Promissory Note (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 16, 2010).
- 10.2* First Amendment to Consulting Agreement (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the SEC on December 16, 2010).
- 10.3 Registration Rights Agreement dated January 21, 2011 by and between API Technologies Corp. and Vintage Albany Acquisition, LLC (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the SEC on January 27, 2011).
- 10.4* Management Bonus Plan dated January 9, 2011 (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed with the SEC on January 27, 2011)
- 10.5* Employment letter agreement of Kenneth W. Fiske (filed herewith).
- 10.6* Employment letter agreement with Bel Lazar dated February 25, 2011 (filed herewith).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer (filed herewith).
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith).
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (filed herewith).
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (filed herewith).

* Management contracts, compensation plans or arrangements.

API Technologies Corp.

January 9, 2011

Ken Fiske

Dear Ken:

As you are aware, API Technologies Corp. (“API” or the “Company”) and SenDEC Corporation (“SenDEC”), along with certain other signatories, are entering into an Agreement and Plan of Merger dated January 9, 2011, providing for the acquisition of SenDEC by a wholly owned subsidiary of API (the “Acquisition”). Subject to the closing of the Acquisition, we are pleased to offer you a position with SenDEC as its Chief Executive Officer, starting on the closing date of the Acquisition. In your position, you will report to Brian Kahn, Chairman of API. Your services hereunder will initially be performed at SenDEC’s principal place of business located in Fairport, NY, except for reasonable travel required in connection with the performance of your duties for SenDEC.

1. Salary and Benefits. If you decide to join us, you will initially receive a base salary at the annualized rate of \$310,959 (the “Base Salary”), which will be subject to standard payroll deductions and withholdings and paid in accordance with API’s and SenDEC’s normal payroll procedures, and, will be modified over time as described on Schedule 1 hereto. Prior to July 31, 2013 your salary (as modified over time as described in Schedule 1 shall not be reduced without your consent.

As an employee, you are also eligible to receive benefits available to full-time regular employees of SenDEC. These benefits currently include a 401(k) plan, medical, dental, vision, disability, life insurance and long term care insurance (for you and your spouse) as specified on Exhibit A. You will also be entitled to receive additional paid time off in accordance with SenDEC’s policies as indicated on Schedule 1. You should note that that Company and SenDEC may modify salaries and benefits from time to time as it deems necessary.

You shall be entitled to paid time off in accordance with SenDEC’s existing PTO policy and will receive credit towards this policy for your previous employment at SenDEC.

2. Stock Option Grant. In addition, if you decide to join us, it will be recommended at the first meeting of API’s Board of Directors following your start date that you be granted a non-qualified stock option to purchase a number of shares of API Common Stock to be determined (representing a portion of the Acquisition option commitment) at a price per share equal

to the fair market value per share of the Common Stock on the date of grant, as determined by the Company's Board of Directors (the "Option"). The Shares subject to the Option shall be fully vested as of the grant date. The Option shall be subject to the terms and conditions of the Amended and Restated API 2006 Equity Incentive Plan and a Stock Option Agreement thereunder.

3. Bonus Program. You will also be eligible to participate in the API management bonus program as more fully described in that certain API Management Bonus Plan, attached hereto (the "Bonus Plan"). Bonus payments will be made in accordance with the Bonus Plan. You will be eligible to receive payments under the Bonus Plan if you remain employed through the payment date or if your employment is terminated by SenDEC without Cause or by you for Good Reason, in accordance with Section 5(c) or if you die or become disabled in accordance with Section 5(b). In all cases, your rights under the Bonus Plan will be governed by the Bonus Plan and your participation agreement thereunder.

4. At-Will Employment. We are excited about your joining us and look forward to a beneficial and fruitful relationship. Nevertheless, you should be aware that your employment with SenDEC is for no specified period and constitutes at-will employment. As a result, you are free to resign at any time, for any reason or for no reason. Similarly, SenDEC is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice. We do, however, recognize that for you to achieve the full benefit of the Bonus Plan, you would normally need to remain an employee of SenDEC for at least three years following the closing of the Acquisition. There are, however, certain circumstances pursuant to which the bonuses otherwise payable under the Bonus Plan will be paid if you separate from service prior to the end of such three-year period. Consequently, the provisions set forth in Section 5 on Termination will apply.

5. Termination.

(a) For Cause by SenDEC or by you without Good Reason. For purposes of this Agreement, "Cause" shall mean, in each case, as reasonably determined by the SenDEC Board of Directors: (i) your conviction of, or entry of a pleading of guilty or no contest with respect to a felony or crime involving fraud; (ii) your willful and continued breach of this Agreement, including willful and continued failure to perform employment duties, after the Company's Board of Directors delivers a written demand for substantial performance and you neglect to cure such breach to the reasonable satisfaction of the Board within thirty (30) days of such written demand (absent cure by you, the date of such termination for Cause under this subparagraph (ii) shall be the thirtieth day after receipt of such written demand); (iii) your material, knowing and intentional failure to comply with applicable laws with respect to the execution of SenDEC's business operations, (iv) your unauthorized use or disclosure of any proprietary information or trade secrets of the Company or SenDEC, or (v) your theft, fraud, embezzlement, dishonesty or similar conduct which has resulted or is likely to result in material damage to the Company or SenDEC or any of their customers, members, Affiliates or subsidiaries. For purposes of this Agreement, the term "Affiliate" or "Affiliates" with respect to a particular entity shall mean any entity or person other than such particular entity, which directly or indirectly through one or more intermediaries controls, or is

controlled by, or is under common control with, the entity. The term “control”, including the terms “controlling”, “controlled by” and “under common control with”, means the possession, direct or indirect, of the power to direct or cause the direction of management and policies of such person or entity, whether through the ownership of voting securities, by contract or otherwise.

(i) If you are terminated by SenDEC for Cause pursuant to this Section 5(a) or resign from your position for any reason other than “Good Reason” (as defined below), you shall be entitled to receive, within thirty (30) days of the date of your termination, your Base Salary, employee benefits entitlements, unused vacation days and expense reimbursement entitlements, in each case, accrued through the date of your separation from service, and you shall have no further rights to any other compensation (including any Base Salary or bonus under the Bonus Plan). All other employee benefits, if any, due you following your termination of employment for Cause pursuant to this Section 5(a) shall be determined in accordance with the plans, policies and practices of SenDEC; provided, however, that you shall not participate in any severance plan, policy or program of the Company or SenDEC.

(b) Disability or Death. Your employment hereunder shall terminate immediately upon your death or if you become physically or mentally incapacitated and thus unable for a period of one hundred twenty (120) consecutive days or one hundred fifty (150) days during any consecutive six (6) month period to perform your duties with substantially the same level of quality as immediately prior to such incapacity (such incapacity is hereinafter referred to as “Disability”). Upon termination of your employment hereunder for either Disability or death (i) you or your estate (as the case may be) shall be entitled to receive, within thirty (30) days of the date of your termination, your Base Salary, employee benefits entitlements, unused vacation days, and expense reimbursement entitlements, in each case, accrued through the date of your termination, and (ii) you or your estate (as the case may be) shall be entitled to receive that portion of the bonus payable in accordance with the Bonus Plan that you would have been entitled to receive if you were still employed by SenDEC at the time the bonus becomes payable, if ever. If your employment is terminated as a result of your Disability as described in this Section 5(b), the Company shall (i) continue to provide you with the same long term care, life insurance and disability benefits provided to you immediately prior to termination, if any, as specified on Exhibit A, from the date of such termination until the first anniversary of the termination date, (ii) continue to provide you with the same medical benefits provided to you immediately prior to such termination from the date of such termination until the first anniversary of the termination date, provided that the Company may partially fulfill this obligation to the extent allowed by applicable law, by paying your premiums under COBRA, and you shall timely elect COBRA coverage if requested by the Company. Except as herein provided, you or your estate (as the case may be) shall have no further rights to any other compensation (including any Base Salary). All other employee benefits, if any, due to you following your termination for Disability or death shall be determined in accordance with the plans, policies and practices of SenDEC; provided, however, that you (or your estate, as the case may be) shall not participate in any severance plan, policy or program of the Company or SenDEC.

(c) Without Cause by SenDEC or by You for Good Reason. Your employment hereunder may be terminated by SenDEC without Cause (other than by reason of your death or Disability) or by you for Good Reason following the delivery of a Notice of Termination to the other party, provided that a termination by you with Good Reason shall be effective only if you deliver such notice to SenDEC within ninety (90) days of the initial existence of the Good Reason condition and within 30 days following the delivery of the Notice of Termination for Good Reason to SenDEC, SenDEC has failed to cure the circumstances giving rise to Good Reason. If your employment is so terminated, then, (i) you shall be entitled to receive, within thirty (30) days of the date of your termination, your Base Salary, employee benefits entitlements, unused vacation days, and expense reimbursement entitlements, in each case, accrued through the date of your termination, and (ii) you shall be entitled to receive that portion of the bonus payable in accordance with the Bonus Plan that you would have been entitled to receive if you were still employed by SenDEC at the time the bonus becomes payable, if ever. If your employment is terminated as described in this Section 5(c), the Company shall (i) continue to provide you with the same long term care, life insurance and disability benefits provided to you immediately prior to termination, if any, as specified on Exhibit A, from the date of such termination until the first anniversary of the

termination date, (ii) continue to provide you with the same medical benefits provided to you immediately prior to such termination from the date of such termination until the first anniversary of the termination date, provided that the Company may partially fulfill this obligation to the extent allowed by applicable law, by paying your premiums under COBRA, and you shall timely elect COBRA coverage if requested by the Company (collectively, the benefits described in this sentence shall be referred to as the "Insurance Benefits"). You shall have no further rights to any other compensation (including any additional Base Salary). All other employee benefits, if any, due you following your termination pursuant to this Section 5(c) shall be determined in accordance with the plans, policies and practices of SenDEC. Notwithstanding any other provision hereof, you acknowledge and agree that any and all payments and benefits to which you are entitled under this Section 5(c) are conditional upon, and subject to, your execution non-revocation of a general release and waiver of claims in the form attached hereto as Exhibit B and provided further that such release becomes effective and irrevocable within sixty (60) days following your termination ("Release Deadline"). If such release does not become effective and irrevocable by the Release Deadline you will forfeit any right to payments and benefits under this Section 5(c), including any payments under the Bonus Plan and the Insurance Benefits.

For purposes of this Agreement, "Good Reason" means, without your written consent: (i) any material breach of this Agreement by the Company or SenDEC, as applicable, including but not limited to its failure to comply with the provisions of Sections 1, 2 or 3 of this Agreement; (ii) a material diminution in your Base Salary, bonus eligibility or benefits eligibility other than a diminution that is proportionate among employees of your level; (iii) any relocation of SenDEC's principal place of business in Fairport, NY, to a location more than 60 miles away; (iv) a Change of Control (as defined below) of SenDEC or API, if the Company's obligations under the Bonus Plan are not assumed by the acquiring corporation; or (v) voluntary retirement at any time on or after January 1, 2012. For these purposes, "Change of Control" means a sale, transfer, exchange or other disposition of fifty percent (50%) or more of the stock of SenDEC or API (determined on a fully diluted, as converted basis) or a sale, transfer or other disposition of all or substantially all of SenDEC's or API's assets, provided that this definition satisfies the definition of "Change of Control Event" within the meaning of Section 409A, as defined below.

(d) Termination by Executive without Good Reason. You may terminate your employment hereunder without Good Reason following the delivery of a Notice of Termination to SenDEC; such termination to be effective no less than two (2) weeks following such Notice of Termination. Upon your termination pursuant to this Section 5(d), you shall be entitled to receive, within 30 days of the date of termination, your Base Salary, employee benefits entitlements, expense reimbursement entitlements, unused vacation days and expense reimbursement entitlements, in each case, accrued through the date of such termination and payable within 30 days of the date of your termination, and you shall have no further rights to any other compensation (including any Base Salary or bonus under the Bonus Plan). All other employee benefits, if any, due you following termination pursuant to this Section 5(d) shall be determined in accordance with the plans, policies

and practices of SenDEC; provided, however, that you shall not participate in any severance plan, policy or program of the Company or SenDEC.

(e) Notice of Termination. Any purported termination of employment by SenDEC or you shall be communicated by a written Notice of Termination to you or SenDEC, as the case may be, delivered in accordance with Section 12(b) hereof. For purposes of this Agreement, a “Notice of Termination” shall mean a notice which shall indicate the specific termination provision in the Agreement relied upon, the date of termination, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated. The date of termination of your employment shall be the date so stated in the Notice of Termination, which shall be subject to the provisions for cure set forth in this Section.

(f) Change of Control. In the event of a Change of Control of SenDEC or API, if the Company’s obligations under the Bonus Plan are not assumed by the acquiring corporation, the amount of the bonus payable under the Bonus Program from and after the date of the Change of Control will accelerate, and the Company will pay you the aggregate amount of the bonus you would be entitled to under the Bonus Program from and after the date of the Change of Control, as if you had remained an employee through the third anniversary of the closing, calculating such amount as if 100% of the milestones occurring after the Change of Control had been achieved, and such amount shall be payable within 30 days of the date of termination.

6. For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire, or our employment relationship with you may be terminated.

7. We also ask that, if you have not already done so, you disclose to the Company any and all agreements relating to your prior employment that may affect your eligibility to be employed by SenDEC or limit the manner in which you may be employed. It is the Company’s understanding that any such agreements will not prevent you from performing the duties of your position and you represent that such is the case. Moreover, you agree that, during the term of your employment with SenDEC, you will not engage in any other employment, occupation, consulting, or other business activity directly related to the provision of printed circuit board assembly services (the “Business”), nor will you engage in any other activities that conflict with your obligations to SenDEC or the Company, provided that during the term of your employment you may engage in (A) management of non-conflicting personal investments, or (B) services on behalf of non-profit institutions, in each case so long as such activities do not interfere or conflict with your obligations hereunder. For purposes hereof, each of the Company and SenDEC agrees that your involvement with SenDEC Products Inc., including, but not limited to, acting as a Board Member and assisting during the transition period to facilitate the separation of the SenDEC products division as a new company, is not competitive with the Business.

8. As a SenDEC employee, you will be expected to abide by Company and SenDEC rules and standards. You will be specifically required to sign an acknowledgment that you have read and that you understand the Company's rules of conduct, which are included in the Company Handbook.

9. As a condition of your employment, you will also be required to sign and comply with an At-Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement, which requires, among other provisions, the assignment of patent rights to any invention made during your employment at SenDEC, and non-disclosure of proprietary information. In the event of any dispute or claim relating to or arising out of our employment relationship, you and the Company agree to an arbitration in which (i) you are waiving any and all rights to a jury trial but all court remedies will be available in arbitration, (ii) we agree that all disputes between you and the Company shall be fully and finally resolved by binding arbitration, and (iii) all disputes shall be resolved by a neutral arbitrator who shall issue a written opinion.

10. Covenant Not to Compete and Non-Solicitation

(a) Covenant Not to Compete. I agree that during the course of my employment and until the later to occur of (i) four years from the date of the consummation of the Acquisition and (ii) one (1) year immediately following the termination of my relationship with SenDEC (the "Restricted Period") whether I resign voluntarily or am terminated by SenDEC involuntarily, I will not, without the prior written consent of the Company, whether paid or not: (i) serve as a partner, principal, licensor, licensee, employee, consultant, officer, director, manager, agent, Affiliate, representative, advisor, promoter, associate, investor, or otherwise for, (ii) directly or indirectly, own, purchase, organize or take preparatory steps for the organization of, or (iii) build, design, finance, acquire, lease, operate, manage, control, invest in, work or consult for or otherwise join, participate in or affiliate myself with, any business whose business, products or operations are in any respect competitive with the Business; provided, however, nothing in this Agreement will prevent me from owning a passive interest of not more than two (2%) of any entity that may be competitive with the Business. The foregoing covenant shall cover my activities in every part of the Territory. "Territory" shall mean (i) all counties in the State of New York; (ii) all other states of the United States of America from which SenDEC or the Company derived revenue or conducted business at any time during the two-year period prior to the date of the termination of my relationship with SenDEC; and (iii) any other countries from which SenDEC or Company derived revenue or conducted business at any time during the two-year period prior to the date of the termination of my relationship with SenDEC. Should I obtain other employment during my employment with SenDEC or the Company or during the Restricted Period, I agree to provide written notification to the Company as to the name and address of my new employer, the position that I expect to hold, and a general description of my duties and responsibilities, at least three (3) business days prior to starting such employment; provided that the foregoing shall not be interpreted to require, and I agree that I

will not, provide to the Company or SenDEC any proprietary technical information or customers information belonging to my new employer.

(b) Non-Solicitation.

(i) *Non-Solicitation of Customers.* I agree that during the Restricted Period whether I resign voluntarily or am terminated by SenDEC involuntarily, I shall not contact, or cause to be contacted, directly or indirectly, or engage in any form of oral, verbal, written, recorded, transcribed, or electronic communication with any Customer for the purposes of conducting business that is competitive or similar to the Business for the purpose of disadvantaging the Company's or SenDEC's business in any way. For the purposes of this Agreement, "Customer" shall mean all persons or entities that have used SenDEC's or the Company's services at any time during the two-year period preceding the termination of my employment with SenDEC. I further acknowledge and agree that the identity of the Customers is not readily ascertainable or discoverable through public sources, and that SenDEC's or the Company's list of Customers was cultivated with great effort and secured through the expenditure of considerable time and money by SenDEC and the Company.

(ii) *Non-Solicitation of Employees.* I agree that during the Restricted Period, whether I resign voluntarily or am terminated by SenDEC involuntarily, I will not directly or indirectly hire, solicit, or recruit, or attempt to hire, solicit, or recruit, any employee of SenDEC or the Company to leave their employment with SenDEC or the Company, nor will I contact any employee of SenDEC or the Company, or cause an employee of SenDEC or the Company to be contacted, for the purpose of leaving employment with SenDEC or the Company. This shall not prohibit contact of an employee by an employment recruiter or other such third party as part of a general solicitation that is not specifically targeted at employees of SenDEC or the Company on my behalf.

(iii) *Non-Solicitation of Others.* I agree that during the Restricted Period, whether I resign voluntarily or am terminated by SenDEC involuntarily, I will not solicit, encourage, or induce, or cause to be solicited, encouraged or induced, directly or indirectly, any franchisee, joint venture, supplier, vendor or contractor who conducted business with SenDEC or the Company at any time during the two year period preceding the termination of my employment with SenDEC or the Company, to terminate or adversely modify any business relationship with SenDEC or the Company or not to proceed with, or enter into, any business relationship with SenDEC or the Company, nor shall I otherwise interfere with any business relationship between SenDEC or the Company and any such franchisee, joint venture, supplier, vendor or contractor.

(c) Acknowledgements. I acknowledge that I will derive significant value from SenDEC's agreement to (i) pay me a salary, (ii) grant me the Option, (iii) make me eligible to receive employment benefits and to participate in the Bonus Plan, and (iv) provide me with the confidential information of the Company and SenDEC to enable me to optimize the performance of my duties to SenDEC. I further acknowledge that my fulfillment of the obligations (i) neither to disclose nor to

use the Company's Confidential Information other than for the Company's exclusive benefit, and (ii) my obligations not to compete and not to solicit contained in subsections (a) and (b) above, are necessary to protect SenDEC's and the Company's Confidential Information and, consequently, to preserve the value and goodwill of SenDEC and the Company. I also acknowledge the time, geographic and scope limitations of my obligations under subsections (a) and (b) above are fair and reasonable in all respects, especially in light of SenDEC's and the Company's need to protect their Confidential Information and the international scope and nature of SenDEC's and the Company's business, and that my compliance the restrictions on competition and solicitations of customers or others during this period within the Territory as described above do not preclude me from seeking other forms of gainful employment.

(d) Separate Covenants. The covenants contained in subsections (a) and (b) above shall be construed as a series of separate covenants, one for each city, county and state of any geographic area in the Territory. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in subsections (a) and (b) above. If, in any judicial or arbitral proceeding, a court or arbitrator refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be eliminated from this offer letter to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of subsections (a) and (b) above are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be reformed to the maximum time, geographic or scope limitations, as the case may be, then permitted by such law. In the event that the applicable court or arbitrator does not exercise the power granted to it in the prior sentence, I, SenDEC and the Company agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

11. Section 409A.

(a) Construction. To the extent that any amount or benefit under this Agreement is subject to (and not exempt from) Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and other guidance promulgated thereunder ("Section 409A"), then, with respect to such amount or benefit, this Agreement shall be construed to comply with Section 409A. Amounts payable pursuant to the Bonus Plan, including following a termination pursuant to Section 5(b) or 5(c), are intended to comply with Section 409A as amounts payable on a specified time or fixed schedule in accordance with Treas. Reg. Section 1.409A-3 (i)(1)(i). In the event that a termination under Section 5(c) occurs at a time during the year that would allow the Release Deadline to be in taxable year following the taxable year of a scheduled Bonus Plan payment, then such payment shall occur on the Release Deadline.

(b) Separation from Service. A termination of employment shall not be deemed to have occurred with respect to any amount or benefit that is subject to Section 409A unless

such termination of employment or services meets the definition of “separation from service” within the meaning of Section 409A. Any references to “termination”, “termination of employment”, “employment termination” or “date of termination” or like references shall be deemed to be references to “separation from service” within the meaning of Section 409A or date of such “separation from service”.

(c) Six Month Wait for Key Employees. Notwithstanding anything to the contrary in this Agreement, if you are a “specified employee” within the meaning of Section 409A at the time of your termination, then the severance and benefits payable to you pursuant to this Agreement (other than due to death), if any, and any other severance payments or separation benefits which may be considered deferred compensation under Section 409A, which are otherwise due to you on or within the six (6) month period following your termination will accrue during such six (6) month period and will become payable in a lump sum payment on the date six (6) months and one (1) day following the date of your termination of employment or the date of death, if earlier. All subsequent deferred compensation severance benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit.

(d) Reimbursements and In-Kind Benefits. To the extent that any taxable reimbursements of expenses or in-kind benefits are provided, they shall be made in accordance with Section 409A, including, but not limited to the following provisions: (i) the amount of any such expense reimbursement or in-kind benefit provided during a service provider’s taxable year shall not affect any expenses eligible for reimbursement in any other taxable year; (ii) the reimbursement of the eligible expense shall be made no later than the last day of the service provider’s taxable year that immediately follows the taxable year in which the expense was incurred; and (iii) the right to any reimbursement shall not be subject to liquidation or exchange for another benefit or payment.

12. Miscellaneous.

(a) Governing Law and Forum Selection. This Agreement shall be governed by and interpreted under the internal laws of the State of New York, without giving effect to the principles of conflict of laws of such State. With respect to any suit, action or other proceeding arising from (or relating to) this Agreement, the Company, SenDEC and Employee hereby irrevocably agree to the exclusive personal jurisdiction and venue of the federal and state courts located within Monroe County, New York.

(b) Notices. Any notice, demand or request required or permitted to be given by either the Company, SenDEC or you, shall be in writing and shall be deemed given when delivered personally or deposited in the U.S. mail, First Class with postage prepaid, and addressed to the parties, in the case of the Company, at 2200 Smithtown Avenue, Ronkonkoma, N.Y., 11779, attn: Chairman of the Board, and, in the case of SenDEC at 72 Perinton Parkway, Fairport, N.Y., 14450, attn: Chief Executive Officer, with a copy to the Company, and in the case of you, at the current address set forth in SenDEC’s employment file maintained for you, or such other address as a

party may request by notifying the other in writing.

To indicate your acceptance of the Company's offer and acknowledgement of the general statement regarding overtime pay required by the State of New York, please sign and date this letter in the space provided below. This letter, along with any agreements relating to confidential information between you and SenDEC, set forth the terms of your employment with SenDEC and supersede any prior representations or agreements relating to your employment, including any employment or compensation agreements between SenDEC and you. This letter, including, but not limited to, its at-will employment provision, may not be modified or amended except by a written agreement signed by the Company President and you. This letter may be executed in several counterparts each of which will be deemed to be an original but together will constitute one and the same instrument.

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We look forward to your favorable reply and to working with you at SenDEC.

Sincerely,

/s/ Jonathan Pollack

Jonathan Pollack
Vice President

Mandatory General Statement Regarding Overtime Pay in New York State:

Most employees in New York State must be paid overtime wages of 1 1/2 times their regular rate of pay for all hours worked over 40 hours in a workweek. A very limited number of specific categories of employees must be paid overtime at a lower rate or not at all.

I have been notified of my wage rate, overtime rate, and designated pay day on the date given below, and accept the Company's offer of employment:

Signature: /s/ Ken Fiske

Name: Ken Fiske

Date: January 9, 2011

Enclosures:

Schedule 1 – Salary and Paid Time Off

Bonus Plan

At-Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement

Exhibit A – Specified Benefits

Exhibit B – Release Agreement

SCHEDULE 1

Year 1:

Salary = \$310,959

Paid Time Off = Six (6) weeks

Year 2:

Salary = \$248,767 (80%)

Paid Time Off = Eleven (11) weeks

Year 3:

Salary = \$186,576 (60%)

Paid Time Off = Sixteen (16) weeks

API Technologies Corp.
4705 S. Apopka Vineland Road, Suite 210
Orlando, Florida 32819

February 24, 2011

Bel Lazar
11474 Twin Hills Ave.
Porter Ranch, CA 91326

Dear Bel:

I am pleased to offer you a position with API Technologies Corp. (the "Company") as its President and Chief Operating Officer, working out of your home office in Northridge, California. This letter sets forth the terms and conditions of the Company's offer of employment to you.

1. **Base Salary**. You will be paid an annual base salary of \$500,000, which will be paid on a semi-monthly basis in accordance with the Company's normal payroll procedures.
2. **Incentive Compensation**. You will be eligible to receive an annual cash incentive ("Annual Incentive") payable for the achievement of performance goals established by the Compensation Committee of the Board of Directors ("Committee"). Your target Annual Incentive will be 70% of your base salary and your maximum target opportunity will be 100% of your base salary, based on specified levels of performance goals being achieved. The actual earned Annual Incentive, if any, payable to you for any performance period will depend upon the extent to which the applicable performance goals specified by the Committee are achieved and will be decreased or increased for under- or over-performance. Receipt of the Annual Incentive is contingent on your continued employment with the Company through the date of payment.
3. **Stock Award Signing Bonus**. We will recommend at the first Committee meeting following your start date that you be granted 300,000 shares of Company Common Stock as a signing bonus (the "Stock Grant"). The Stock Grant will be made to you on the business day immediately following the date that the Committee approves the grant. The Stock Grant shall be subject to the terms and conditions of the Company's 2006 Equity Incentive Plan.
4. **Auto Allowance**. You are eligible to receive an auto allowance of \$1,000 per month. In addition to the auto allowance, you may submit gasoline and oil receipts for reimbursement through the Company's expense reporting and reimbursement policies. All other auto-related expenses are covered in your monthly auto allowance.

5. **Life & AD&D Insurance.** The Company will provide basic life insurance and accidental death and dismemberment insurance coverage for you that is equal to two times your base salary. The Company will pay 100% of the premiums to maintain this coverage throughout your employment.
6. **Medical & Dental Insurance.** The Company will provide medical and dental insurance to you and your covered dependents. The Company will pay 100% of the premiums to maintain this coverage throughout your employment.
7. **Other Employee Benefits.** As a full-time employee of the Company, you will be eligible to participate in other employee benefit plans, including vacation and other benefits that are generally made available to other employees of the Company, subject to the terms, conditions and eligibility requirements of such plans and the Company's policies.
8. **At-Will Employment.** The Company is excited about your joining and looks forward to a beneficial and productive relationship. Nevertheless, you should be aware that your employment with the Company is for no specified period and constitutes at-will employment. As a result, you are free to resign at any time, for any reason or for no reason. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice. We request that, in the event of resignation, you give the Company at least two weeks' notice. Also, you should note that the Company may modify job titles, salaries and benefits from time to time as it deems necessary.
9. **Background Checks.** The Company reserves the right to conduct background investigations and/or reference checks on all of its potential employees. Your job offer, therefore, is contingent upon a completion of such a background investigation and/or reference check, if any.
10. **Immigration Compliance.** For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire, or our employment relationship with you may be terminated.
11. **Disclosure Requirement.** We also ask that, if you have not already done so, you disclose to the Company any and all agreements relating to your prior employment that may affect your eligibility to be employed by the Company or limit the manner in which you may be employed. The Company understands that any such agreements will not prevent you from performing the duties of your position and you represent that such is the case.
12. **Rules of Workplace Conduct.** As a Company employee, you will be expected to abide by the Company's rules and standards. Specifically, you will be required to sign an acknowledgment that you have read and that you understand the Company's rules of conduct. Moreover, you agree that, during the term of your employment with

the Company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to the Company. Similarly, you agree not to bring any third party confidential information to the Company, including that of your former employer, and that in performing your duties for the Company you will not in any way utilize any such information.

- 13. Execution of Confidentiality Agreement.** As a condition of your employment, you are also required to sign and comply with a Confidentiality and Intellectual Property Rights Agreement (the "Confidentiality Agreement"), which is incorporated by reference herein and which requires, among other provisions, the assignment of patent rights to any invention made during your employment at the Company, and non-disclosure of Company proprietary information. Please note that we must receive your signed Confidentiality Agreement before your first day of employment.

To accept the Company's offer, please sign and date this letter in the space provided below. A duplicate original is enclosed for your records. If you accept our offer, we expect that your first day of employment will be on or about March 1, 2011.

This letter, along with any agreements relating to proprietary rights between you and the Company and agreements relating to the Stock Grant, set forth the terms of your employment with the Company and supersede any prior or contemporaneous representations or agreements including, but not limited to, any representations made during your recruitment, interviews or pre-employment negotiations, whether written or oral. This letter, including, but not limited to, its at-will employment provision, may not be modified or amended except by a written agreement signed by the Chairman of the Board of Directors and you. This offer of employment will terminate if it is not accepted, signed and returned by February 28, 2011.

We look forward to your favorable reply and to working with you at API Technologies Corp.

Sincerely,

/s/ Brian Kahn

Brian Kahn
Chairman of the Board

Agreed to and accepted:

Signature: /s/ Bel W. Lazar

Printed Name: Bel W. Lazar

Date: February 25, 2011

Enclosures
Duplicate Original Letter
Confidentiality and Intellectual Property Rights Agreement

Rule 13a-14(a)
CERTIFICATION

I, Brian Kahn, hereby certify that:

1. I have reviewed this quarterly report on Form 10-Q of API Technologies Corp.;
2. Based on my knowledge, this 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 report, fairly present 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. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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 such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant'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 control over financial reporting.

Date: April 14, 2011

/s/ Brian Kahn

Brian Kahn

Chairman and Chief Executive Officer

Rule 13a-14(a)
CERTIFICATION

I, Andrew Laurence, hereby certify that:

1. I have reviewed this quarterly report on Form 10-Q of API Technologies Corp.;
2. Based on my knowledge, this 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 report, fairly present 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. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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 such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant'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 control over financial reporting.

Date: April 14, 2011

/s/ Andrew Laurence

Andrew Laurence

Chief Accounting Officer and Vice President of Finance

**Section 1350
CERTIFICATION**

In connection with the Quarterly Report of API Technologies Corp. (the "Company") on Form 10-Q for the period ending February 28, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian Kahn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian Kahn

Brian Kahn

Chairman and Chief Executive Officer

April 14, 2011

**Section 1350
CERTIFICATION**

In connection with the Quarterly Report of API Technologies Corp. (the "Company") on Form 10-Q for the period ending February 28, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Andrew Laurence, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Andrew Laurence

Andrew Laurence
Chief Accounting Officer and Vice President of Finance

April 14, 2011