

FORM 10-Q

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

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1997

OR

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

For the transition period from _____ to _____

Commission file number 0-10605

ODETICS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

95-2588496

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

1515 SOUTH MANCHESTER AVE., ANAHEIM, CA

92802

(Address of principal executive offices)

(Zip Code)

(714) 774-5000

(Registrant's telephone number, including area code)

(Former name, former addressed and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

YES ☒

NO ☐

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

Number of shares of Common Stock outstanding as of November 12, 1997

Class A Common Stock - 6,202,778 shares.
Class B Common Stock - 1,062,041 shares.

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PART 1 FINANCIAL INFORMATION

ODETICS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	1996	1997	1996	1997
Net sales and contract revenues:				
Net sales	\$16,556	\$20,585	\$32,083	\$40,525
Contract revenues	2,774	1,521	5,273	3,053
Total net sales and contract revenues	19,330	22,106	37,356	43,578
Costs and expenses:				
Cost of sales	11,910	14,337	22,265	27,550
Cost of contract revenues	1,405	784	2,677	1,681
Selling, general and administrative expense	4,608	6,428	9,207	12,379
Research and development expense	1,909	2,285	3,612	4,309
Interest expense, net	10	112	8	116
	19,842	23,946	37,769	46,035
Loss from continuing operations before taxes	(512)	(1,840)	(413)	(2,457)
Income taxes benefit	(222)	(736)	(199)	(983)
Net loss from continuing operations	(290)	(1,104)	(214)	(1,474)
Income from discontinued operations, net of income taxes	1,378	1,319	2,309	2,306
Net income	\$ 1,088	\$ 215	\$ 2,095	\$ 832
Weighted average number of shares outstanding	6,580	6,810	6,515	6,633
Earnings (loss) per share:				
Continuing operations	\$ (0.04)	\$ (0.16)	\$ (0.03)	\$ (0.22)
Discontinued operations	\$ 0.21	\$ 0.19	\$ 0.35	\$ 0.35
Earnings per share	\$ 0.17	\$ 0.03	\$ 0.32	\$ 0.12

See notes to consolidated financial statements.

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ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 1997	Sept. 30, 1997 (unaudited)
ASSETS	-----	-----
Current assets		
Cash	\$ 1,865	\$ 489
Trade accounts receivable, net	17,127	14,028
Current portion of ATL note receivable	3,249	3,249
Costs and estimated earnings in excess of billings on uncompleted contracts	1,922	2,068
Inventories:		
Finished goods	498	424
Work in process	2,968	2,747

Materials and supplies	12,184	13,235
	-----	-----
Total inventories	15,650	16,406
Prepaid expenses	978	1,179
Deferred income taxes	2,056	2,057
	-----	-----
Total current assets	42,847	39,476
Property, plant and equipment		
Land	2,090	2,090
Buildings and improvements	17,642	17,668
Equipment, furniture and fixtures	25,202	27,364
	-----	-----
	44,934	47,122
Less accumulated depreciation	(23,824)	(24,885)
	-----	-----
Net property, plant and equipment	21,110	22,237
Net assets of discontinued operations	8,865	11,642
Long term ATL note receivable less current portion	9,748	8,395
Other assets	2,738	9,209
	-----	-----
Total assets	\$ 85,308	\$ 90,959
	=====	=====

See notes to consolidated financial statements.

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ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 1997	Sept. 30, 1997 (unaudited)
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$ 8,802	\$ 8,189
Accrued payroll and related	5,306	3,749
Accrued expenses	1,788	6,992
Income taxes payable	(742)	(1,174)
Billings in excess of costs and estimated earnings on uncompleted contracts	2,690	1,662
Current portion of long-term debt	1,721	1,502
	-----	-----
Total current liabilities	19,565	20,920
Long-term debt, less current portion	11,860	14,567
Deferred income taxes	540	161
Stockholders' equity		
Preferred stock, authorized 2,000,000 shares;		

none issued	-	-
Common Stock, authorized 10,000,000 shares of Class A and 2,600,000 shares of Class B; 5,892,603 shares of Class A and 1,064,241 shares of Class B issued and outstanding at September 30, 1997 - \$.10 par value	638	696
Paid-in capital	40,442	45,158
Note receivable from employees	0	(3,655)
Foreign currency translation	52	69
Retained earnings	12,211	13,043
	-----	-----
Total stockholders' equity	53,343	55,311
	-----	-----
Total liabilities and stockholders' equity	\$85,308	\$90,959
	=====	=====

See notes to consolidated financial statements.

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ODETICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended September 30,	
	1996	1997
	-----	-----
Operating activities		
Net income from continuing operations	\$ (214)	\$ (1,474)
Adjustments to reconcile net income to net cash provided by (used) in continuing operating activities:		
Depreciation and amortization	1,368	1,504
Provision for inventory reserves	587	754
Provision for losses on accounts receivable	0	66
Provision (benefit) for deferred income taxes	271	(811)
Net proceeds from settlement of litigation	5,860	0
Gain (loss) on sale of assets	(186)	13
Foreign currency translation gain	72	17
Changes in operating assets and liabilities:	(5,283)	(2,216)
	-----	-----
Net cash provided by (used) in continuing operating activities	2,475	(2,147)
Investing activities		
Purchases of property, plant, and equipment, net	(1,120)	(2,364)
Purchase of net assets of acquired business	0	(2,249)
Repayment of long term note receivable	25	1,357
	-----	-----
Net cash used in investing activities	(1,095)	(2,361)
Financing activities		
Proceeds from revolving line of credit and		

long-term borrowings	25,600	23,700
Principal payments on line of credit, long-term debt and capital lease obligations	(28,159)	(21,212)
Proceeds from sale of common stock	1,795	644
	-----	-----
Net cash provided by financing activities	(764)	3,132
	-----	-----
Increase (decrease) in cash	616	(1,376)
Cash at beginning of year	1,141	1,865
	-----	-----
Cash at September 30	\$ 1,757	\$ 489
	=====	=====

See notes to consolidated financial statements.

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ODETICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

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In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals except for adjustments to present the Company's, ATL Products, Inc. (ATL) as a discontinued operation (See Note 4) necessary to present fairly the consolidated financial position of Odetics, Inc. (the "Company") as of September 30, 1997 and the consolidated results of operations and cash flows for the three month and six-month periods ended September 30, 1996 and 1997. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations for the three month and six-month periods ended September 30, 1997 are not necessarily indicative of those to be expected for the entire year. The accompanying financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended March 31, 1997 filed with the Securities and Exchange Commission.

Note 2 - Income Taxes

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Income tax expense for the three month and six-month periods ended September 30, 1996 and 1997 has been provided at the estimated annualized effective tax rates based on the estimated income tax liability or asset and change in deferred taxes for their respective fiscal years. Deferred taxes result primarily from temporary differences in the reporting of income for financial statement and income tax purposes. These differences relate principally to the use of accelerated cost recovery depreciation methods for tax purposes, capitalization of interest and taxes for tax purposes, capitalization of computer software costs for financial statement purposes, deferred compensation, other payroll accruals, and reserves for inventory and accounts receivable for financial statement purposes and general business tax credit and alternative minimum tax credit carryforwards for tax purposes.

Note 3 - Long-Term Debt
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	(in thousands)	
	March 31, 1997	September 30, 1997
	-----	-----
Line of credit	\$ 2,100	\$ 5,600
Mortgage note	10,171	9,707
Contracts payable	1,310	767
	-----	-----
	13,581	16,069
Less current portion	1,721	1,502
	-----	-----
	\$11,860	\$14,567
	=====	=====

Note 4 - On March 13, 1997, ATL Products, Inc. ("ATL"), a subsidiary of the
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Company, completed an initial public offering (the "Offering") of 1,650,000 shares of its Class A Common Stock, at an initial public offering price of \$11 per share. Following the Offering, the Company's beneficial ownership interest in ATL was reduced to 82.9%. On October 31, 1997, the Company completed a tax-free spin-off of its remaining interest in ATL to the Company's stockholders, pursuant to which each holder of the Company's Class A and Class B

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Common Stock (collectively the "Common Stock") as of October 31, 1997 received approximately 1.1 shares of Class A Common Stock of ATL for each share of the Company's Common Stock then held. In connection with the spin-off, the financial statements of the Company have been restated to reflect continuing operations and the discontinued operations of ATL. The ATL net sales included in the discontinued operations for the periods being reported are as follows:

	(in thousands)	
	September 30, 1996	September 30, 1997
	-----	-----
Quarter Ended	\$14,263	\$22,902
Six Months Ended	\$27,040	\$41,469

NOTE 5 Legal Proceedings

The Company brought an action against Storage Technology Corporation ("StorageTek") in the Eastern District Court of Virginia alleging that StorageTek had infringed the Company's patent covering robotics tape cassette handling systems (United States Patent No. 4,779,151). StorageTek counterclaimed alleging that the Company infringed several of StorageTek's patents. Prior to trial, the court dismissed two of the infringement claims against the Company and the third claim was resolved between the parties. In January 1996, the jury determined that the patent claims were not infringed under the doctrines of equivalents

based upon a claim construction defined by the court prior to the trial. The jury also concluded that the Company's patent was not invalid. In June 1997, the United States Court of Appeals for the Federal Circuit vacated the lower court's claim construction and findings of noninfringement under a proper claim construction. In August 1997, the appellate court denied a petition for rehearing requested by StorageTek.

NOTE 6 Earnings per Share

Earnings per share is based on the weighted average number of shares of Common Stock and the dilutive effects of Common Stock equivalents (stock options), determined using the treasury stock method.

In February 1997 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings per Share, effective for both interim and annual periods ending after December 15, 1997. At that time, the company will be required to change the method currently used to compute earnings per share and to restate all prior periods. The impact of this statement on the calculation of primary and fully diluted earnings per share for the three-months and six-months ended September 30, 1997 and 1996 is not expected to be material.

ODETICS, INC.

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in this Report and in the Annual Report on Form 10-K of the Company. When used in this Report, the words "expect(s)," "feel(s)," "believe(s)," "will," "may," "anticipate(s)" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements include, among other things, statements concerning projected revenues, funding and cash requirements, supply issues and the Company's incubator strategy, and involve a number of risks and uncertainties, including without limitation, those set forth at the end of this Item 2 under the caption "Risk Factors." The Company's actual results may differ materially from any forward-looking statements discussed herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Results of Operations

General

On October 31, 1997, the Company completed the spin-off of its 82.9% interest in ATL by distributing 8,005,000 shares of Class A Common Stock of ATL owned by the Company to the Company's stockholders of record on October 31, 1997. In connection with the spin-off, the Company's financial statements have been restated to reflect continuing operations and discontinued operations. Discontinued operations reflect the Company's interest in the operations of ATL for the periods presented.

Net Sales and Contract Revenues

Net sales and contract revenues consist of (i) sales of products and services to commercial customers ("net sales") and (ii) revenues derived from contracts with the agencies of the United States Government or its prime contractors and long-term contracts with foreign entities related to

space recorders for geographical information systems ("contract revenues"). Total net sales and contract revenues increased 14.4% to \$22.1 million for the three month period ended September 30, 1997 as compared to \$19.3 million in the corresponding period of the prior fiscal year, and increased 16.7% to \$43.6 million for the six month period ended September 30, 1997 as compared to \$37.4 million in the corresponding period of the prior fiscal year. The increase in both the three month and six month periods of fiscal 1998 reflected an increase in net sales which was offset by a significant decrease in contract revenues primarily due to changes in government spending patterns and a transition by the Company from certain government markets to commercial activities.

The growth in net sales for the three month and six month period ended September 30, 1997 fiscal 1998 was primarily due to an increase in sales of its telecommunications products, largely due to increased unit sales of its timing and synchronization products for cellular telephone systems. The Company also experienced growth in its Intelligent Traffic Systems division largely due to revenues generated from its transportation products acquired from Rockwell, Inc. at the end of the first quarter of fiscal 1998. The Company's wholly-owned subsidiary, GYYR, Inc., experienced moderate growth for the three month and six month period ended September 30, 1997 as compared to the same periods in the prior fiscal year. The increase in the Company's net sales in these divisions was partially offset by a decrease in net sales in the Company's Broadcast Division for the second quarter and six month period as compared to the same period in the prior fiscal year. The decrease in Broadcast sales

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was primarily due to the timing of orders.

Gross Profit

Gross Profit as a percentage of net sales increased to 30.3% for the three months ended September 30, 1997 as compared to 28.1% in the comparable period in the prior fiscal year, and increased to 32.0% for the six month period ended September 30, 1997 as compared to 30.6% for the same period in the prior fiscal year. These increases were primarily due to a shift in the product mix in the current year that favored products that carried a higher gross profit. Gross profit as a percentage of contract revenues decreased to 48.5% in the second quarter of fiscal 1998 from 49.4% in the same period in the prior fiscal year and decreased 49.4% for the six month period ended September 30, 1997 as compared to 49.2% in the same period in the prior fiscal year. The decrease in gross profit as a percentage of contract revenues is mainly due to the lower absorption of fixed manufacturing overhead costs on a decreased sales volume.

Selling, General and Administrative Expense

Selling, general and administrative expense increased 39.5% to \$6.4 million (or 29.1% of total net sales and contract revenues) in the second quarter of fiscal 1998 as compared to \$4.6 million (or 23.8% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Selling, general and administrative expenses for the six month period ended September 30, 1997 increased 34.5% to \$12.4 million (or 28.4% of total net sales and contract revenues) as compared to \$9.2 million (or 24.6% of total net sales and contract revenues) for the same period in the prior fiscal year. The increase for the three month and six month periods ended September 30, 1997 principally reflected the Company's efforts to expand its sales and marketing capabilities through infrastructure growth which included higher sales commissions associated with increased sales, as well as increased expenditures for advertising, promotion and labor costs associated with the Company's increased commercial sales and marketing activities. Selling, general and administrative expense also reflected increased expenses associated with additional contract administrative support infrastructure acquired from Rockwell, Inc. at the end of the first quarter of fiscal 1998.

Research and Development Expense

Research and development expense increased 19.7% to \$2.3 million (or 10.3% of total net sales and contract revenues) in the second quarter of fiscal 1998 as compared to \$1.9 million (or 9.9% of total net sales and contract revenues) in the second quarter of fiscal 1997. Research and development expense for the six-month periods increased 19.3% to \$4.3 million (or 9.9% of total net sales and contract revenues) as compared to \$3.6 million (or 9.7% of total net sales and contract revenues) in the corresponding period of fiscal 1997. This increase primarily reflected additional engineering and labor costs, consulting fees, prototype material costs and other costs associated with the development, testing and preproduction costs related to new product development in Gyr, Inc., Broadcast Division and Communication Division. The Company expects expenditures for research and development to generally increase over time and to be higher during periods of new product development when significant expenditures are incurred in preproduction activities and increased testing. The expenditures may, therefore, continue to fluctuate as a percentage of total net sales and contract revenues from period to period.

Interest Expense

Interest Expense - net, reflects interest income and interest expense as follows:

	(in thousands)			
	Three Months Ended		Six Months Ended	
	-----		-----	
	1996	1997	1996	1997
	----	----	----	----
Interest Expense	\$444	\$371	\$937	\$651
Interest Income	434	259	929	535
	----	----	----	----
Interest Expense - Net	\$ 10	\$112	\$ 8	\$116
	=====	=====	=====	=====

Interest expense primarily reflects interest on the Company's line of credit borrowings and mortgage interest. The reduction in interest expense for the three month and six month periods of the current fiscal year reflects a reduction in the Company's borrowings on its line of credit facility. Interest income is derived primarily from the note receivable due to the Company from ATL, its previously owned subsidiary. The reduction in interest income in the three month and six month periods of the current fiscal year primarily reflects the \$6.75 million payment by ATL in March 1997 which reduced interest bearing advances from the Company and was used to reduce the Company's borrowings under its line of credit.

Income Taxes

The effective income tax rate for the six month period ended September 30, 1997 was 40% as compared to a 49% effective income tax rate for the same period of the prior year. The decrease in the effective income tax rate projected for fiscal 1998 was primarily due to a reduction in the effect of general business tax credits on total income tax benefit. The Company entered into a Tax Allocation Agreement with ATL effective April 1, 1996, pursuant to which ATL will make a payment to the Company, or the Company will make a payment to ATL, as appropriate, in an amount equal to the taxes attributable to the operations of the Company on its consolidated federal

income tax returns and consolidated or combined state tax returns. In addition, the Tax Allocation Agreement provides that members of the Company's consolidated group generating tax losses after April 1, 1996 will be paid by other members of the group which utilize such tax losses to reduce such other members' tax liability.

Liquidity and Capital Resources

For the first six months of fiscal 1998, the Company used \$2.1 million of cash in continuing operating activities, primarily due to a net loss from continuing operations and changes in operating assets and liabilities. The \$2.4 million of cash used in investing activities, primarily reflecting the \$2.2 million purchase of the net assets for the Transportation Systems Division of Rockwell, Inc.

The Company has a \$17.0 million bank line of credit with Imperial Bank and Comerica Bank-California which provides for borrowings generally at the lesser of the bank's prime rate (8.5% at September 30, 1997) or the bank's LIBOR rate plus 2.25%. Borrowings are available for general working capital purposes, and at September 30, 1997, approximately \$11.1 million was available for borrowing under the line. The Company's borrowings under the line of credit are secured by substantially all of the Company's assets. On September 30, 1997, \$5.6 million was outstanding under this line of credit.

In April 1997, ATL entered into a promissory note payable to the Company in the original principal amount of \$13.0 million representing the aggregate balance of ATL's interest bearing advances from the Company. This note bears interest at a rate equal to the Company's cost of borrowing (8.5% at September 30, 1997). Principal and interest on this note are payable to the Company in sixteen equal quarterly installments at the end of each calendar quarter commencing June 30, 1997.

The Company anticipates that net cash flow generated by operating activities and payments under the note receivable from ATL and funds available under the Company's line of credit will be adequate to enable the Company to execute its current operating plans and meet its obligations on a timely basis for at least the next twelve months.

RISK FACTORS

The Company's business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this Report. The following risks should be considered carefully in addition to the other information contained in this Report in evaluating the Company and its business before purchasing the shares of the Company's Common Stock.

Fluctuations in Quarterly Operating Results. The Company has experienced wide fluctuations in quarterly and annual operating results in the past and may continue to experience fluctuations in the future based on a number of factors, not all of which are in the Company's control. These factors include, without limitation, the size and timing of significant customer orders; the introduction of new products by competitors; the availability of components used in the manufacture of the Company's products; the expenditure of substantial funds for research and development for its subsidiaries and divisions; changes in pricing policies by the Company, its suppliers or its competitors and increased price competition; the ability of the Company to develop, introduce, market and gain market acceptance of new products, applications and product enhancements in a timely manner and to control costs; the Company's success in expanding and implementing its sales and marketing programs; technological changes in the markets in which the Company operates; the reduction in revenues from government programs; the relatively thin level of backlog at any given time; the mix of sales among the Company's channels; deferrals of customer orders in anticipation of new products, applications or product enhancements; currency

fluctuations; and general economic and market conditions. Moreover, the Company's sales in any quarter typically consist of a relatively small number of large customer orders, and the timing of a small number of orders can impact quarter to quarter results. The loss of or a substantial reduction in orders from any significant customer could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's growth in revenues in recent periods may not be sustainable and may not be indicative of future operating results, and there can be no assurance that the Company will continue to achieve profitability on a quarterly or annual basis in the future. Due to all of the foregoing factors and other risks discussed below, it is possible that in some future period the Company's operating results may be below the expectations of analysts and investors. In such event, the market price of the Company's securities would probably be materially and adversely affected.

Dependence on Sole Source Suppliers. The Company purchases numerous parts, supplies and other components used in its products from various independent suppliers, some of whom are the sole supplier for certain parts and components. In particular the Company currently relies on single supplier for the principal component of the Gyr's time-lapse videotape cassette recorders. The Company has not been able to secure any guarantee of the future supply of its sole sourced components. The disruption or termination of the supply of any of the Company's source sourced components for any reason would have a material adverse effect on the Company's business, financial condition and results of operations.

Uncertainty of Incubator Strategy. The Company has initiated a strategy to nurture its business divisions with the goal of conducting additional initial public offerings. The Company's ability to complete an initial public offering of any of its divisions will depend upon numerous factors, including, without limitation, the overall performance of such division, its growth potential, management team, market size, customer base, product line and results of operations, as well as general economic and market conditions. There can be no assurance that the Company will be able to complete a successful initial public offering of any of its divisions in the near future, if at all.

Rapid Technological Change; Effect of New Product Introductions. The markets served by the Company are characterized by rapid technological advances, downward price pressure in the marketplace as technologies mature, changes in customer requirements, frequent new product introductions and enhancements, and evolving industry standards. The Company's business requires substantial ongoing research and development efforts and expenditures, and its future success will depend on its ability to enhance its current products, reduce product costs and develop and introduce new products which incorporate the latest technological advancements in hardware, storage media, operating system software and applications software in response to evolving customer requirements. The Company's failure to anticipate or respond adequately to technological developments and

changing customer requirements, the occurrence of significant delays in new product development or introduction or the failure of any new products to gain market acceptance could impair the Company's competitiveness and could materially and adversely affect the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to introduce new products or enhancements to existing products on a timely basis, if at all, or the effect to which such introductions will have on sales of existing products. To the extent new products are introduced, they may contain undetected design faults and software errors, or "bugs," when first released by the Company that, despite testing by the Company, are discovered only after a product has been installed and used by customers. Although the Company has not experienced any material adverse effect resulting from any such faults or errors to date, there can be no

assurance that faults or errors in the Company's existing products or in new products introduced by the Company will not be discovered in the future, causing delays in product introduction and shipments or requiring design modifications that could adversely affect the Company's competitive position and results of operations.

Competition. The Company competes in each of its markets with numerous other companies, many of which have far greater name recognition and financial, technological, marketing and customer service resources than the Company and may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion, sale and support of their products than the Company. The principal competitive factors in the markets in which the Company participates are product quality and performance, price, reliability, upgradeability, service and technical support. There can be no assurance that the Company will be able to compete effectively in the markets for its products. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse affect upon the Company's business, operating results and financial condition.

Risks Associated with International Sales. International product sales represented approximately 40% and 35% of the Company's total net sales and contract revenues during the first six months of fiscal 1997 and 1998, respectively. The Company believes that international sales will continue to represent a significant portion of its revenues, and that continued growth and profitability will require further expansion of its international operations. The Company's international sales are currently denominated primarily in U.S. dollars, and an increase in the relative value of the dollar could make the Company's products more expensive and, therefore, potentially less price competitive in international markets. Additional risks inherent in international business activities generally include unexpected changes in regulatory requirements, tariffs and other trade barriers, longer accounts receivable payment cycles, difficulties in managing and staffing international operations, potentially adverse tax consequences including restrictions on the repatriation of earnings, the burdens of compliance with a wide variety of foreign laws, currency fluctuations and political and economical instability. The Company does not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations. There can be no assurance that such factors will not have a material adverse effect on the Company's future international sales and, consequently, the Company's business, operating results and financial condition. Furthermore, as the Company increases its international sales, its total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower sales that typically occur during the summer months in Europe and other parts of the world.

Dependence on Key Personnel. The Company's future performance depends to a significant extent on its senior management and other key employees, in particular Joel Slutzky, the Company's Chief Executive Officer. The loss of the services of Mr. Slutzky or certain key employees would have a material adverse effect on the Company's development and marketing efforts. The Company's future success will also depend in large part upon its ability to attract, retain, and motivate highly skilled employees. Competition for employees, particularly development engineers, is intense, and there can be no assurance that the Company will be able to continue to attract and retain sufficient numbers of such highly skilled

employees. The Company's inability to attract and retain additional key employees or the loss of one or more of its current key employees could have a material adverse effect upon the Company's business, financial condition, and results of operations.

Dependence on Proprietary Technology; Risks of Infringement. The Company's ability to compete effectively depends in part on its ability to develop

and maintain proprietary aspects of its technology which the Company attempts to protect with a combination of patent, copyright, trademark, and trade secret laws, employee and third party nondisclosure agreements and similar means. Such rights may not preclude competitors from developing substantially equivalent or superior products to the Company's products. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad will be adequate, that future patents will be issued, or that competitors will not independently develop technologies that are similar or superior to the Company's technology, duplicate the Company's technology, or design around any patent of the Company. Moreover, litigation has been necessary in the past and may be necessary in the future to enforce the Company's intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend the Company against claims of infringement or invalidity by others. An adverse outcome in such litigation or similar proceedings could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from others or require the Company to cease marketing or using certain products, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. If the Company is required to obtain licenses under patents or proprietary rights of others, there can be no assurance that any required licenses would be made available on terms acceptable to the Company, if at all. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses and the diversion of management resources, regardless of whether the claim is valid, could be significant and could have a material adverse effect on the Company's results of operations.

Volatility of Stock Price. The trading price of the Company's Common Stock could be subject to wide fluctuations in response to quarterly variations in operating results, shortages announced by suppliers, announcements of technological innovations or new products, applications or product enhancements by the Company or its competitors, changes in financial estimates by securities analysts and other events or factors. In addition, the stock market has experienced volatility which has particularly affected the market prices of equity securities of many high technology companies and which often has been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Company's securities.

Concentration of Ownership. As of October 31, 1997, the Company's officers and directors beneficially owned a majority of the total combined voting power of the outstanding shares of Class A Common Stock and Class B Common Stock. As a result of their stock ownership, management will be able to significantly influence the election of the Company's directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how other stockholders of the Company may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in management or change in control of the Company and may adversely affect the voting or other rights of other holders of Common Stock.

Anti-Takeover Effect of Charter Provisions, Bylaws, and Stock Structure. The Company has two classes of Common Stock which are substantially identical other than with respect to voting power. The Company's Class A Common Stock entitles the holder to 1/10th vote per share and Class B Common Stock entitles the holder to one vote per share, with concentration of ownership of the Class B Common Stock in the Company's officers and directors and their affiliates. In addition, the

Company's Board of Directors is elected annually on a split vote basis, with the holders of Class A Common Stock currently being entitled to elect two of the directors and holders of the Class B Common Stock currently

being entitled to elect the remaining six directors. These provisions could have the effect of discouraging a proxy contest or making it more difficult for a third party acquiring a substantial block of the Company's Common Stock to effect a change in management and control of the Company. Such provisions also could limit the price that investors might be willing to pay in the future for shares of the Company's Common Stock.

The Board of Directors of the Company is authorized to issue, without stockholder approval, up to 2,000,000 shares of Preferred Stock with voting, conversion and other rights and preferences, as well as additional shares of Class B Common Stock, which could adversely affect the voting power or other rights of the holders of Class A Common Stock. Although the Company has no current plans to issue any shares of Preferred Stock or additional shares of Class B Common Stock, the future issuance of Preferred Stock or Common Stock or of rights to purchase Preferred Stock or Common Stock could be used to discourage an unsolicited acquisition proposal.

Year 2000 Compliance. Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, in less than three years, computer systems and/or software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. Significant uncertainty exists in the hardware and software industry concerning the potential effects associated with such compliance. Although the Company's core products are designed to be Year 2000 compliant, there can be no assurance that such products contain all necessary date code changes, or that the Company's existing information systems will be Year 2000 compliant. As a result, the Company may be required to expend additional resources to make such corrections to its products and information systems, which corrections may not be able to be made on a timely basis, if at all. The Company believes that the purchasing patterns of customers and potential customers may be affected by Year 2000 issues in a variety of ways. Many companies are expending significant resources to correct or patch their current systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase products such as those offered by the Company. Many potential customers may also choose to defer purchasing Year 2000 compliant products until they believe it is absolutely necessary, thus resulting in potentially stalled market sales within the industry. In addition, Year 2000 issues could cause a significant number of companies, including current customers of the Company, to reevaluate their current system needs, and as a result consider switching to other systems or suppliers. Any of the foregoing could result in a material adverse effect on the Company's business, financial condition and results of operations.

ODETICS, INC.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company brought an action against Storage Technology Corporation ("StorageTek") in the Eastern District Court of Virginia alleging that StorageTek had infringed the Company's patent covering robotics tape cassette handling systems (United States Patent No. 4,779,151). StorageTek counterclaimed alleging that the Company infringed several of StorageTek's patents. Prior to trial, the court dismissed two of the infringement claims against the Company and the third claim was resolved between the parties. In January 1996, the jury determined that the patent claims were not infringed under the doctrine of equivalents based upon a claim construction defined by the court prior to the trial. The jury also concluded that the Company's patent was not invalid. In June 1997, the United States Court of Appeals for the

Federal Circuit vacated the lower court's claim construction and findings of noninfringement of the Company's patent. The appellate court remanded the case for consideration of infringement under a proper claim construction. In August 1997, the appellate court denied a petition for rehearing requested by StorageTek.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

In connection with the Company's Annual Meeting of the Stockholders of Odetics, Inc. held on September 5, 1997, the following proxies were tabulated representing 5,293,888 shares of Class A Common Stock or 99%, and 999,913 of Class B Common Stock or 94% of the total outstanding shares voted in the following manner:

Proposal I - Election of the Board of Directors

	Total Vote for Each Director -----	Total Vote Withheld From Each Director -----
Class A Common Stock -----		
Crandall Gudmundson	5,173,764	120,124
Leo Wexler	5,149,949	143,939
Class B Common Stock -----		
Joel Slutzky	999,163	750
Jerry F. Muench	999,163	750
Ralph R. Mickelson	999,163	750
Stanley Molasky	999,163	750
Paul E. Wright	999,163	750
Kevin C. Daly	999,163	750

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Proposal II - To Consider and Approve the Company's 1997 Stock-Incentive Plan

	Class A Common Stock (1/10 Vote per share) -----	Class B Common Stock (1 Vote per share) -----	TOTAL -----
For	217,623	792,817	1,010,440
Against	59,294	7,075	66,369
Abstain	844	915	1,759
No Vote	251,627	199,106	450,733

Proposal III - To Ratify the Appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending March 31, 1998.

	Class A Common Stock (1/10 Vote per share)	Class B Common Stock (1 Vote per share)	TOTAL
--	---	--	-------

	-----	-----	-----
For	528,023	999,588	1,527,611
Against	908	50	958
Abstain	458	275	733
No Vote	N/A	N/A	N/A

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27. Financial Data Schedule

(b) Reports on Form 8-K

There were no reports on Form 8-K filed
for the six-month period ended
June 30, 1997.

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ODETICS, INC.

SIGNATURES

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

ODETICS, INC.
(Registrant)

By /s/ Gregory A. Miner

Gregory A. Miner
Vice President, Chief Financial Officer

By /s/ Gary Smith

Gary Smith
Vice President, Controller
(Principal Accounting Officer)

Date November 13, 1997

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