SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2001

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 000-08762

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 Avenue Anaheim, California	92802
(Address of principal executive office)	(Zip Code)

(714) 774-5000
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all documents and 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 [X]   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 February 12, 2002

Class A Common Stock 11,085,077 shares.
Class B Common Stock 1,035,841 shares.

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In this Report, "Odetics," the "Company," "we," "us," and "our" collectively refers to Odetics, Inc. and its subsidiaries.

PART 1 FINANCIAL INFORMATION

ODETICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share amounts)
(unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	2001	2000	2001
Net sales and contract revenues:				
Net sales	$ 13,735	$ 8,242	$ 42,264	$ 29,244
Contract revenues	4,798	5,376	14,430	16,735
Total net sales and contract revenues	18,533	13,618	56,694	45,979
Costs and expenses:				
Cost of sales	13,666	4,461	36,361	17,891
Cost of contract revenues	2,891	3,404	9,202	10,799
Gross profit	1,976	5,753	11,131	17,289
Selling, general and administrative expense	8,353	5,396	27,989	18,814
Research and development expense	3,885	1,943	11,747	6,398
Minority interest in earnings of subsidiary	0	252	0	426
Restructuring charge	6,285	0	6,285	1,422
Total operating expenses	18,523	7,591	46,021	27,060
Operating loss	(16,547)	(1,838)	(34,890)	(9,771)
Non-operating items				
Other income	0	148	19,055	1,220
Interest expense, net	(201)	(642)	(1,102)	(2,427)
Loss from continuing operations before extraordinary loss	(16,748)	(2,332)	(16,937)	(10,978)
Loss from discontinued operations (including loss on disposal of $8,361) in the nine months ended December 31,2001, net of taxes of $0	(3,203)	0	(7,850)	(13,843)
Extraordinary loss from early extinguishment of debt, net of tax of $0	0	0	0	(450)
Net loss	($19,951)	($ 2,332)	($24,787)	($25,271)
Loss per share:				
Basic and diluted				
Loss from continuing operations, before extraordinary item	($1.60)	($0.20)	($1.73)	($1.00)
Loss from discontinued operations	(0.30)	0.00	(0.80)	(1.27)
Extraordinary loss from the early extinguishment of debt	0.00	0.00	0.00	(0.04)

Loss per share	($1.90)	($0.20)	($2.53)	($2.31)
Shares used in calculating loss per share:				
Basic and diluted	10,494	11,684	9,802	10,938

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	March 31, 2001	December 31, 2001 (unaudited)
Current Assets		
Cash	$ 2,218	$ 1,117
Trade accounts receivable, net	14,300	12,474
Costs and estimated earnings in excess of billings on uncompleted contracts	3,296	3,399
Inventories:		
Finished goods	1,611	1,019
Work in process	51	177
Materials and supplies	8,991	5,364
Total inventories	10,653	6,560
Prepaid expenses	992	2,070
Assets to be disposed of from discontinued operations	5,639	279
Total Current Assets	37,098	25,899
Property, plant and equipment		
Land	2,060	2,060
Buildings and improvements	18,982	19,007
Equipment, furniture and fixtures	33,540	27,947
	54,582	49,014
Less accumulated depreciation	(34,405)	(30,925)
Net property, plant and equipment	20,177	18,089
Goodwill, net	10,622	9,876
Other Assets	164	30
Total Assets	$ 68,061	$ 53,894

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS (continued)
(in thousands)

March 31, December 31,

LIABILITIES AND STOCKHOLDERS' EQUITY	2001	2001 (unaudited)
Current Liabilities		
Trade accounts payable	$ 8,954	$ 6,860
Accrued payroll and related	4,255	5,317
Accrued expenses	2,352	2,868
Contract loss accrual	2,290	2,219
Billings in excess of costs and estimated earnings on uncompleted contracts	2,575	1,905
Revolving line of credit	13,471	0
Liabilities from discontinued operations	1,996	3,325
Current portion of long-term debt	6,990	16,032
Total current liabilities	42,883	38,526
Long-term debt - less current portion	4,800	557
Minority interest	0	9,841
Stockholders' equity		
Preferred stock, authorized 2,000,000 shares; none issued	--	--
Common stock, authorized 50,000,000 shares of class A and 2,600,000 shares of class B; 10,650,190 shares of class A and 1,034,041 shares of class B issued and outstanding at December 31, 2001 - $.10 par value	1,050	1,168
Paid-in capital	78,548	87,631
Treasury stock	(1)	(1)
Note receivable from associates	(51)	(51)
Retained earnings	(58,732)	(84,003)
Accumulated other comprehensive income (loss)	(436)	226
Total stockholders' equity	20,378	4,970
Total liabilities and stockholders' equity	$68,061	$53,894

See notes to consolidated financial statements.

ODETICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended December 31, 2000	2001
Operating activities		
Net loss from continuing operations	($24,787)	($11,428)
Net loss from discontinued operations	0	(13,843)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7,490	2,952
Amortization of warrants	0	738
Write-off fixed assets - Mariner	0	8,361
Minority interest in earnings of subsidiary	0	426
Loss on sale of Iteris common stock	0	1,597
Loss on disposal of assets	0	48
Provision for losses on accounts receivable	46	102
Gain on sale of product line	0	(2,579)
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	(1,261)	1,724
(Increase) Decrease in net costs and estimated earnings in excess of billings	1,125	(773)

(Increase) Decrease in inventories	1,497	310
(Increase) Decrease in prepaids and other assets	1,037	(977)
Change in net assets of discontinued operations	0	(1,672)
Increase (Decrease) in accounts payable and accrued expenses	1,083	(1,773)
Net cash used in operating activities	(13,770)	(16,787)
Investing activities		
Purchases of property, plant, and equipment	(2,145)	(279)
Proceeds from sale of product line	0	9,884
Net cash provided by (used in) investing activities	(2,145)	9,605
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	19,894	27,470
Principal payments on line of credit, long-term debt and capital lease obligations	(24,319)	(30,773)
Proceeds from sale of Iteris common stock	0	3,851
Proceeds from sale of Iteris preferred stock	0	4,988
Proceeds from issuance of Class A common stock	17,012	(117)
Net cash provided by (used in) financing activities	12,587	5,419
Effects of exchange rate changes on cash	(604)	662
Decrease in cash	(3,932)	(1,101)
Cash at beginning of year	4,880	2,218
Cash at December 31	$948	$1,117
Non cash transactions		
Stock issuance to former MMA shareholders	505	2,737
Issuance of warrants	0	1,357
Equity of subsidiary allocable to minority interest	0	9,415
Issuance of Iteris stock	0	4,203

See notes to consolidated financial statements.

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

Note 1 - Basis of Presentation and Operations

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, except as disclosed elsewhere in the notes to consolidated financial statements, necessary to present fairly the consolidated financial position of Odetics, Inc. and its subsidiaries as of December 31, 2001 and the consolidated results of its operations and cash flows for the three and nine months ended December 31, 2000 and 2001. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the Unites States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Certain amounts in the financial statements have been reclassified to conform with the 2002 presentation.

It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and nine months ended December 31, 2001 are not necessarily indicative of those to be expected for the entire year. The accompanying consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K/A for the year ended March 31, 2001 filed with the Securities and Exchange Commission.

During the nine months ended December 31, 2001, we used $16.8 million of cash to fund our operations, which reflects our net loss of $25.3 million reduced by non-cash charges including $8.4 million related to asset impairment write-downs and reserves for costs to exit Mariner Networks, $3.7 million for depreciation and amortization, and $1.6 million of losses incurred from the sale of common stock of our majority owned subsidiary, Iteris Inc. Significant financing and investing activities during the nine months ended December 31, 2001 are discussed below.

In April 2001, we completed the sale of our Vortex Dome and Quarterback Controller product lines for $1.1 million in net cash proceeds. The proceeds were approximately equal to the book value of the net assets sold, and were used to reduce the outstanding borrowings on our bank line of credit.

In May 2001, we received $16.0 million pursuant to a promissory note secured by a first trust deed on our principal facilities in Anaheim, California. This promissory note is due in May 2002 and bears annual interest at a rate of 10.0%. In connection with this note, we issued warrants to the lender to purchase 426,667 shares of our Class A common stock at an exercise price of $4.00 per share. In connection with a forbearance agreement negotiated in November 2001, we repriced the exercise price of these warrants to $3.00 per share. We allocated approximately $1.3 million of the loan proceeds to the warrant, and will accrete that amount to interest expense over the term of the loan.

Of the $16.0 million proceeds from this note, we used approximately $6.0 million to retire the pre-existing first trust deed on our Anaheim real property, which included a prepayment penalty of $450,000. This prepayment penalty is reflected as an extraordinary item in the accompanying consolidated statement of operations. We also used approximately $5.9 million of the proceeds to reduce the outstanding borrowings under our bank line of credit. We used the balance of the proceeds from this financing, after payment of the related expenses, for general working capital purposes.

In August 2001, Iteris issued 1,781,268 shares of its Series A preferred stock to an institutional investor in exchange for $5.0 million in cash. In addition, Iteris issued 1,343,645 shares of its Series A preferred stock and 547,893 shares of its common stock in exchange for $500,000 in cash and the retirement of its $3.75 million Subordinated Convertible Promissory Note, plus related accrued interest of

$0.4 million. Concurrently, Odetics sold in a secondary transaction, $1.9 million of its shares of Iteris common stock to a group of investors, which included management of Odetics and Iteris.

Iteris used approximately $2.6 million of the proceeds from this financing to reduce the outstanding borrowings under our bank line of credit. In addition, Odetics used $1.4 million of the proceeds that it received on its sale of Iteris common stock to further reduce the outstanding borrowings under its bank line of credit.

In August 2001, Iteris secured its own $5.0 million operating line of credit for its working capital needs. We believe that Iteris' cash reserves, together with available borrowings under this line of credit, will enable Iteris to meet its current obligations and execute its operating plans for at least the next twelve months.

In September 2001, we completed the sale of substantially all of the assets and certain of the liabilities of our CCTV Products division of Gyyr Incorporated for $8.8 million in cash, plus the assumption of $1.0 million indebtedness. In connection with this transaction, we recorded a non-operating gain of $2.5 million in the three months ended September 30, 2001. We used the proceeds from this transaction to retire the remaining obligations due under our bank line of credit, which has now expired, and to fund severance obligations and other general working capital requirements.

In September 2001, we discontinued the operations of our wholly owned subsidiary, Mariner Networks, Inc. The aggregate losses recognized to exit the Mariner operations approximate $8.4 million and are included in the loss from discontinued operations in our consolidated statements of operations for the three and six months ended September 30, 2001.

In December 2001, Odetics completed the sale of additional common shares of Iteris for total proceeds of $1.9 million to a group of investors. At December 31, 2001, Odetics' ownership of Iteris was 62.7%.

We expect that our operations will continue to use net cash through the fourth quarter of fiscal 2002. We expect to have an ongoing need to raise cash by securing additional debt or equity financing, or by divesting certain assets to fund our operations. We are currently proceeding with the sale and leaseback of our principal facilities in Anaheim, California. We cannot be certain that our plan to sell and leaseback our facilities will be successful or that we will be able to secure other debt or equity financing. Our future cash requirements will be highly dependent upon our ability to control expenses, as well as the successful execution of the revenue plans by each of our business units. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

These conditions, together with our recurring operating losses, raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or liabilities that may result from the outcome of this uncertainty.

NOTE 2 - Recent Accounting Pronouncements

In June 2001, the FASB issued Statement No. 141, Business Combinations ("Statement 141"), and No. 142, Goodwill and Other Intangible Assets ("Statement 142") effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with Statements 141 and 142. Other intangible assets will continue to be amortized over their useful lives.

We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2003. Application of the nonamortization provisions of Statement 142 is expected to result in the reduction in amortization expense of approximately $1.7 million per year. During fiscal 2003, we will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of April 1, 2002. We have not yet determined what the effect of these tests will have on our earnings and financial position.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("Statement 144"), which is effective for fiscal years beginning after December 15, 2001. Under Statement 144, assets held for sale are included in discontinued operations if the operations and cash flows will be or have been eliminated from our ongoing operations we will not have any significant continuing involvement in the operations of the component. In the three months ended September 30, 2001, we adopted the provisions of Statement 144, effective as of April 1, 2001. The impact of the adoption is discussed in Note 8.

NOTE 3 - Income Taxes

Income tax expense (benefit), if any, for the three and nine months ended December 31, 2000 and 2001 has been provided at the estimated annualized effective tax rates. We did not provide income tax benefit for the losses incurred in the three and nine months ended December 31, 2000 and 2001 due to the uncertainty as to the ultimate realization of the benefit.

NOTE 4 - Long-Term Debt

	March 31, 2001	December 31, 2001
	(in thousands)	
Mortgage note	$5,874	$15,383
Notes payable	4,750	1,148
Contracts payable	1,166	58

	11,790	16,589
Less current portion	6,990	16,032
	$4,800	$ 557

NOTE 5 - Legal Proceedings

On October 11, 1999, Odetics settled a patent infringement case it had brought against Storage Technology Corporation ("StorageTek"). Pursuant to the settlement agreement, StorageTek agreed to pay Odetics a license fee totaling $100.0 million for use of Odetics' United States Patent No. 4,779,151. Under the agreement, the license fee was payable in three installments: $80.0 million upon signing of the agreement, and two annual installments of $10.0 million payable in each of October 2000 and 2001. On June 12, 2000, Odetics and StorageTek amended the agreement; whereby StorageTek agreed to pay a final discounted payment of $17.8 million immediately in full settlement of the $20.0 million otherwise due to complete the settlement. Accordingly, Odetics recognized non-operating income in that amount in the three months ended June 30, 2000.

NOTE 6 - Comprehensive Income (loss)

The components of comprehensive income (loss) for the three months and nine months ended December 31, 2000 and 2001 are as follows in thousands:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	2001	2000	2001
Net loss	$(19,951)	$(2,332)	$(24,787)	$(25,271)
Foreign currency translation adjustment	(39)	160	(604)	662
Comprehensive loss	$(19,990)	$(2,172)	$(25,391)	$(24,609)

NOTE 7 - Business Segment Information

We currently operate in three reportable segments: intelligent transportation systems ("ITS"), video products, which include products for the television broadcast and video security markets, and telecom products. Selected financial information for Odetics' reportable segments for the three and nine months ended December 31, 2000 and 2001 are as follows (in thousands):

	ITS	Video Products	Telecom Products	Total
Three Months Ended December 31, 2000				
Revenue from external customers	$ 7,707	$ 7,220	$ 1,702	$ 16,629
Intersegment revenues	0	1,254	74	1,328
Segment income (loss)	(659)	(6,976)	(335)	(7,970)
Three Months Ended December 31, 2001				
Revenue from external customers	9,798	2,415	1,405	13,618
Intersegment revenues	0	0	0	0
Segment income (loss)	1,032	(277)	(877)	(122)

The following table reconciles segment revenues and loss to consolidated revenues and loss from continuing operations.

	Three Months Ended December 31, 2000	Three Months Ended December 31, 2001
Revenue	(in thousands)	
Total revenues for reportable segments	$ 17,957	$ 13,618
Non-reportable segment revenues	1,904	0
Other revenues	0	0
Elimination of intersegment sales	(1,328)	0
Total consolidated revenues	18,533	13,618
Total profit or loss for reportable segments	(7,970)	(122)
Other profit or loss	(970)	(427)
Loss from discontinued operations	(3,203)	0
Unallocated amounts:		
Corporate and other expenses	(1,322)	(1,141)
Special charge	(6,285)	0
Interest expense	(201)	(642)
Income (loss) before income taxes	$ (19,951)	$ (2,332)

	ITS	Video Products	Telecom Products	Total
Nine Months Ended December 31, 2000				
Revenue from external customers	$ 20,028	$ 25,809	$ 4,406	$ 50,243
Intersegment revenues	0	4,034	74	4,108
Segment income (loss)	(4,283)	(14,346)	(1,988)	$ (20,617)
Nine Months Ended December 31, 2001				
Revenue from external customers	27,147	15,004	3,828	45,979
Intersegment revenues	0	0	0	0
Segment income (loss)	2,067	(2,505)	(2,879)	(3,317)

The following table reconciles segment revenues and loss to consolidated revenues and loss from continuing operations before income taxes in thousands:

	Nine Months Ended December 31, 2000	Nine Months Ended December 31, 2001
	(in thousands)	
Total revenues for reportable segments	54,351	$ 45,979
Non-reportable segment revenues	6,451	0
Other revenues	0	0
Elimination of intersegment sales	(4,108)	0
Total consolidated revenues	56,694	45,979
Total profit or loss for reportable segments	(20,617)	(3,317)
Other profit or loss	(2,536)	(216)
Loss from discontinued operations	(7,850)	(13,843)
Unallocated amounts:		
Corporate and other income (expenses)	13,603	(4,046)
Special charge	(6,285)	(1,422)
Interest expense	(1,102)	(2,427)
Income (loss) before income taxes	$ (24,787)	$ (25,271)

NOTE 8 - Discontinued Operations

In September 2001, in connection with our continued cost control efforts and the slowdown in the telecommunications industry, our Board of Directors approved a plan to immediately discontinue the operations of Mariner Networks, Inc., a wholly-owned subsidiary included in our telecom products segment. We anticipate that the operating assets of Mariner will be sold within the next twelve months. The aggregate losses recognized to write down the assets of Mariner to fair value less cost to sell were approximately $6.7 million. In addition, we accrued $ 1.7 million for severance and other costs to exit the Mariner operation. These write-downs and costs are included in the loss from discontinued operations in the consolidated statements of operations for the nine months ended December 31, 2001.

Mariner's revenue and loss before income taxes reported as discontinued operations for the three and nine months ended December 31, 2001 and 2000 are as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	2001	2000	2001
Revenue	$ 334	$ --	$ 822	$ 366
Loss before taxes	(3,203)	--	(7,850)	(5,482)

The net assets of Mariner consisted of the following (in thousands) at:

	December 31, 2001
Accounts and notes receivable	0
Inventories and other assets	85
Property, plant and equipment	194
Assets held for disposal	279
Accounts and notes payable	2,346
Accrued and other liabilities	979
Liabilities of discontinued operations	3,325

NOTE 9 - Restructuring

In September 2001, as a result of the sale of the Gyyr products division and the discontinuation of Mariner Networks, we reorganized our CCTV European operations and reduced our corporate staff. The reorganization of the European operations included the discontinuation of our Odetics Europe Ltd., Gyyr Europe Ltd. Mariner France and Mariner Europe Ltd. operations, and the transition of our Broadcast and MAXxess international operations to branch office operations. As a result, we incurred severance and other costs totaling $1.4 million in the nine months ended December 31, 2001.

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/A of Odetics. When used in this Report, the words "expect(s)," "feel(s)," "believe(s)," "intends," "plans," "will," "may," "anticipate(s)" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements include, among other things, statements concerning our ability to obtain a new credit line and secure other sources of capital, our ability to sell existing assets, projected revenues, expenses and results of operations, cash requirements, supply issues, market acceptance of new products, our business 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." Our 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. We undertake 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. We define our business segments as ITS, video products and telecom products. The ITS segment consists of our majority-owned subsidiary, Iteris, Inc. The video products segment includes our wholly-owned subsidiaries, Broadcast, Inc. and MAXxess Systems, Inc. (previously known as Gyyr Incorporated). The telecom products segment consists of Zyfer, Inc., our wholly-owned subsidiary (formerly known as our Communications division). In April 2001, Gyyr separated its operations into two divisions, the Gyyr CCTV Products division, which manufactures analog and digital storage solutions, and the Gyyr Electronic Access Control division, which manufactures enterprise security management systems. In September 2001, we sold substantially all of the assets and certain liabilities of the Gyyr CCTV Products division. In connection with the sale, we changed the name of Gyyr to MAXxess Systems, Inc. to reflect the focus of the business on Electronic Access Control systems.

All references to our subsidiaries in this report include the prior business and results of operations of such subsidiaries as our business units prior to their incorporation.

In September 2001, in connection with continued cost control efforts and the slowdown in the telecommunications industry, our Board of Directors approved the immediate discontinuation of Mariner Networks, Inc., our wholly-owned subsidiary. Mariner had previously been included within our telecom products segment. We anticipate that the operating assets of Mariner will be sold within the next twelve months. The aggregate losses recognized to exit the Mariner operations were approximately $8.4 million and are included in the loss from discontinued operations in the consolidated statements of operations for the nine months ended December 31, 2001.

In September 2001, as a result of the sale of the Gyyr CCTV Products division product lines and the discontinuation of Mariner Networks we reorganized our European operations and reduced our corporate staff. The reorganization of the European operations included the discontinuation of our Odetics Europe Ltd., Gyyr Europe Ltd., Mariner France and Mariner Europe Ltd. operations, and the transition of our Broadcast and MAXxess international operations to branch office operations with the intent of lowering our international costs. As result, we incurred severance and other costs totaling $1.4 million for the nine months ended December 31, 2001.

Net Sales and Contract Revenues. Net sales and contract revenues consist of (i) sales of products and services to commercial and municipal agencies ("net sales") and (ii) revenues derived from contracts with state, county and municipal agencies for ITS projects ("contract revenues"). Contract revenues also

include revenue from contracts with agencies of the United States government and foreign entities for space recorders used for geographical information systems. Total net sales and CCTV contract revenues decreased 26.5% to $13.6 million for the three months ended December 31, 2001, compared to $18.5 million in the corresponding period of the prior fiscal year, and decreased

18.9% to $46.0 million for the nine months ended December 31, 2001, compared to $56.7 million in the corresponding period of the prior fiscal year.

Net sales decreased 40.0% to $8.2 million for the three months ended December 31, 2001, compared to $13.7 million in the corresponding period of the prior fiscal year and decreased 30.9% to $29.2 million for the nine months ended December 31, 2001, compared to $42.3 million in the corresponding period of the prior fiscal year. In early September 2001, Odetics completed the sale of the Gyyr CCTV Products division ("CCTV"). CCTV product sales in the nine months ended December 31, 2001 includes sales only through the date of the divestiture. Sales of CCTV product sales comprised $0 and $8.3 million of net sales in the three and nine months ended December 31, 2001, respectively, compared to $6.2 million and $20.1 million of net sales in the corresponding periods of the prior fiscal year. Accordingly, the vast majority of the decrease in net sales for the three and nine months ended December 31, 2001 compared to the corresponding periods of the prior fiscal years was attributable to the divestiture of the Gyyr CCTV Products division. The Company also experienced decreased sales in the three and nine months ended December 31, 2001 in Broadcast and Zyfer, offset by increased sales of Iteris products. For the three and nine months ended December 31, 2001, sales of Iteris products represented 72% and 59%, respectively, of our net sales. Iteris sales growth reflects increased unit sales of Vantage video detection systems and Autovue lane departure warning systems. In the three months ended December 31, 2000, Broadcast determined it would not pursue continued sales opportunities for its Roswell facility management system and shifted the focus of its business to sales of its AIRO Automation systems. The average selling price of an AIRO system is lower than that of Broadcast's tape library products that comprised a significant portion of its net sales in the prior fiscal year. The decrease in Broadcast net sales reflects sales of a more focused, software centric product line in the three months and nine months ended December 31, 2001. The decrease in Zyfer sales in the three and nine months ended December 31, 2001 primarily reflects its transition to selling its new line of CommSynch II products that address specialized communications applications, and the decline in revenue derived from LGIC, a significant Korean-based customer.

Contract revenues increased 12.0% to $5.4 million for the three months ended December 31, 2001, compared to $4.8 million in the corresponding period of the prior fiscal year, and increased 16.0% to $16.7 million for the nine months ended December 31, 2001 compared to $14.4 million in the corresponding period of the prior fiscal year. The increase in contract revenues in the three months and nine months ended December 31, 2001 reflects an increase in Iteris' contract revenues for ITS projects.

Gross Profit. Gross profit as percentage of net sales increased to 45.9% for the three months ended December 31, 2001 compared to 0.5% in the corresponding period in the prior fiscal year. Gross profit on net sales increased to 38.8% for the nine months ended December 31, 2001 compared to 14.0% in the corresponding period in the prior fiscal year. Gross profit as percentage of net sales for the three and nine months ended December 31, 2000 is net of charges of $3.1 million for the write-off of inventories associated with discontinued product lines. Gross profit as a percent net sales for the three and nine months ended December 31, 2000, before the effect of these write-offs, was 22.1% and 20.6%, respectively. The increases in the three and nine month periods in fiscal 2002 compared to the corresponding periods of the prior fiscal year primarily reflects increased gross margin on net sales in Broadcast and the benefit of the divestiture of the Gyyr CCTV Product division product lines, which had historically low gross margins relative to net sales. Broadcast experienced an improved gross margin as a result of its focus on the sale of higher margin AIRO Automation systems.

Gross profit as a percentage of contract revenues decreased to 36.7% for the three months ended December 31, 2001 compared to 39.7% in the corresponding period in the prior fiscal year. Gross profit as a percentage of contract revenues decreased to 35.5% for the nine months ended December 31, 2001

compared to 36.2% in the corresponding period in the prior fiscal year. The decrease in the three and nine month periods in fiscal 2002 compared to the corresponding periods of the prior fiscal year reflects decreased gross profit on contracts in Iteris, which was offset in part by increased gross margins on contracts in Zyfer. Gross margin on long-term contracts by both Zyfer and Iteris reflects the mix of contracts from which revenue was recognized in a given financial reporting period. As a result, the variability of gross margin on long term contracts is not indicative of any particular operating trend or event.

Selling, General and Administrative Expense. Selling, general and administrative expense decreased 35.4% to $5.4 million (or 39.6% of total net sales and contract revenues) in the three months ended December 31, 2001 compared to $8.4 million (or 45.1% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Selling, general and administrative expense decreased 32.8% to $18.8 million (or 40.9% of total net sales and contract revenues) in the nine months ended December 31, 2001 compared to $28.0 million (or 49.4% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The fiscal 2001 restructuring resulted in substantial decreases in selling, general and administrative expense in Broadcast, MAXxess, and Iteris in the three months and nine months ended December 31, 2001 compared to the corresponding periods of the prior fiscal year. The expense reductions in the current fiscal year that are associated with the restructuring in the prior fiscal year were augmented by further cost reductions associated with the divestiture of the Gyyr Product Division product lines in September 2001. On a sequential basis, selling, general and administrative expenses declined approximately $1.0 million in the three months ended December 31, 2001 compared to the three months ended September 30, 2001.

Research and Development Expense. Research and development expense decreased 50.0% to $1.9 million (or 14.3% of total net sales and contract revenues) in the three months ended December 31, 2001 compared to $3.9 million (or 21.0% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Research and development expense decreased 45.5% to $6.4 million (or 13.9% of total net sales and contract revenues) in the nine months ended December 31, 2001 compared to $11.7 million (or 20.7% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. These decreases were primarily related to the fiscal 2001 restructuring, which resulted in substantial decreases in research and development expenditures in the three and nine months ended December 31, 2001 in each of our business units compared to the corresponding periods of the prior fiscal year. The decreases were primarily in the areas of payroll and related benefits, prototype material cost and consulting fees. For competitive reasons, we closely guard the confidentiality of our specific development projects. The expense reductions in the current fiscal year that are associated with the restructuring in the prior fiscal year were augmented by further cost reductions associated with the divestiture of the Gyyr CCTV Product division product lines in September 2001. On a sequential basis, research and development expenses declined approximately $0.4 million in the three months ended December 31, 2001 compared to the three months ended September 30, 2001, mostly related to the sale of the Gyyr CCTV Product division product lines.

Restructuring Charge. During the three months ended September 30, 2001, we incurred costs related to the restructuring of our European operations, and the continued downsizing of our corporate cost structure. These costs included, approximately $1.0 million for severance charges and $0.4 million for the impairment of long-lived assets.

Other Income. During the three months ended December 31, 2001 we recognized $1.1 million in income under an agreement to provide transition support services to the purchaser of our former Gyyr CCTV Products division product line. Also, during the three months ended December 31, 2001, we sold in a secondary transaction, $1.9 million of our Iteris common stock to a group of investors. We incurred a loss on this sale of $576,000. In connection with a promissory note secured by our Anaheim real property, we issued warrants to the lender to purchase 426,667 shares of our Class A common stock at an exercise price of $4.00 per share. We allocated approximately $1.3 million of the loan proceeds to the warrant, and

incurred $370,000 in amortization expense.

Other income for the nine months ended December 31, 2001 reflects aggregate gains on the sale of Gyyr CCTV Products division product line, plus transition support services income of $3.5 million, partially offset by losses of $1.6 million on secondary sales of Iteris common stock, and $720,000 in charges for warrant amortization.

Interest Expense, Net. Interest expense, net reflects interest income and interest expense as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	2001	2000	2001
Interest expense	$ 277	$ 642	$ 1,352	$ 2,427
Interest income	76	--	250	--
Interest expense, net	$ 201	$ 642	$ 1,102	$ 2,427

Interest expense primarily reflects mortgage interest. Interest income in the three and nine months ended December 31, 2001 was derived from short-term investments of excess cash deposits. The increase in interest expense for the three and nine months ended December 31, 2001 compared to the corresponding periods in the prior fiscal year reflects the combined effect of an increase in Odetics' average outstanding borrowings, and an increased interest rate charged on line of credit borrowings in the current fiscal year.

Extraordinary Item. The extraordinary loss incurred in the nine months ended December 31, 2001 related to a prepayment penalty on the retirement of our mortgage note payable resulting from the refinancing of our Anaheim real property.

Income Taxes. We have not provided income tax benefit for the losses incurred in the three and nine months ended December 31, 2001 due to the uncertainty as to the ultimate realization of the related benefit.

Liquidity and Capital Resources

As of December 31, 2000, we had $1.1 million of cash (and cash equivalent). During the nine months ended December 31, 2001, we used $16.8 million of cash to fund our operations, which reflects our net loss of $25.3 million reduced by non-cash charges including $8.4 million related to asset impairment write-downs and reserves for costs to exit Mariner Networks, $3.7 million for depreciation and amortization, and $1.6 million of losses incurred from the sale of common stock of our majority owned subsidiary, Iteris, Inc. Significant financing and investing activities during the nine months ended December 31, 2001 are discussed below.

In April 2001, we concluded the sale of our Vortex Dome and Quarterback Controller product lines for approximately $1.1 million in net cash proceeds. The proceeds were approximately equal to the book value of the net assets sold, and were used to reduce outstanding borrowings due on our bank line of credit.

In May 2001, we received $16.0 million pursuant to a promissory note secured by a first trust deed on our principal facilities in Anaheim, California. This promissory note is due in May 2002 and bears annual interest at a rate of 10.0%. In connection with this note, we issued warrants to the lender to purchase 426,667 shares of our Class A common stock at an exercise price of $4.00 per share. In connection with a

forbearance agreement negotiated in November 2001, we repriced the exercise price of these warrants to $3.00 per share. We allocated approximately $1.3 million of the loan proceeds to the warrant, and will accrete that amount to interest expense over the term of the loan.

Of the $16.0 million proceeds received from this note, we used approximately $6.0 million to retire the pre-existing first trust deed on our

Anaheim real property, which included a prepayment penalty of $450,000. This prepayment penalty is reflected as an extraordinary item in the accompanying consolidated statement of operations, and $5.9 million to reduce borrowings due under our bank line of credit. We used the balance of the proceeds from this financing, after payment of the related expenses, for general working capital purposes.

In August 2001, Iteris issued 1,781,268 shares of its Series A preferred stock to one institutional investor for a purchase price of $5.0 million in cash. In addition, Iteris issued 1,343,645 shares of its Series A preferred stock and 547,893 shares of its common stock in exchange for $500,000 in cash and the retirement of its $3.75 million subordinated convertible promissory note, which Iteris entered into in January 2000, plus related accrued interest of $0.4 million. As part of the transaction, Odetics sold in a secondary transaction, $1.9 million of its shares of Iteris common stock to a group of investors, which included management of Odetics and Iteris.

In August 2001, Iteris secured its own $5.0 million operating line of credit for its working capital needs. We believe that Iteris' cash reserves, together with available borrowings on its line of credit, will enable it to meet its current obligations and execute its operating plans for at least the next twelve months.

In September 2001, we completed the sale of substantially all of the assets and certain of the liabilities of our Gyyr CCTV Products division for $8.8 million in cash, plus the assumption of $1.0 million in debt. In connection with the transaction, we recorded a non-operating gain of $2.5 million in the three months ended September 30, 2001. We used the proceeds from the transaction to retire the remaining obligations due under our previous bank line of credit, which has now expired, and to fund severance obligations and for other general working capital requirements.

In September 2001, we discontinued the operations of our wholly-owned subsidiary, Mariner Networks Inc. The aggregate losses recognized to exit the Mariner operations were approximately $8.4 million, and are included in the loss from discontinued operations in our consolidated statements of operations for the nine months and in the six month period ended December 31, 2001.

In December 2001, we completed the sale of additional common shares of common stock of Iteris for total proceeds of $1.9 million to a group of investors. At December 31, 2001, Odetics' ownership of Iteris was 62.7%.

Our current material capital commitments consist of a $16 million mortgage on our Anaheim property and $600,000 of long-term debt from equipment financing. We expect that our operations will continue to use net cash through the fourth quarter of Fiscal 2002. We expect to have an ongoing need to raise cash by securing additional debt or equity financing, or by divesting certain assets to fund our operations. We are currently proceeding with the sale and leaseback of our principal facilities in Anaheim, California. We cannot be certain that our plan to sell and leaseback our facilities will be successful or that we will be able to secure other debt or equity financing. Our future cash requirements will be highly dependent upon our ability to control expenses, as well as the successful execution of the revenue plans by each of our business units. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

These conditions, together with our recurring operating losses, raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments

to reflect the possible future effects on the recoverability and classification of assets or liabilities that may result from the outcome of this uncertainty.

RISK FACTORS

Before deciding to invest in our company or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this Report and in our other filings with the SEC, including our Annual Report on Form 10-K/A for the year ended March 31, 2001, as well as our subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occur, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

We Have Experienced Substantial Losses and Expect Future Losses. We experienced net losses of $25.3 million for the nine months ended December 31, 2001, $49.8 million for the year ended March 31, 2001, and $38.7 million for the year ended March 31, 2000. In January 2001, we announced the reorganization of our business in order to reduce our operating expenses and negative cash flow, which included the downsizing of our operations in Gyyr and Broadcast, and a 25% reduction in our total work force. In the second fiscal quarter of 2001, we experienced further downsizing in connection with our sale of the Gyyr CCTV Products division and the discontinuation of the business of our Mariner Networks subsidiary. We cannot assure you that our efforts to downsize our operations will improve our financial performance, or that we will be able to achieve profitability on a quarterly or annual basis in the future. Most of our expenses are fixed in advance, and we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, we may continue to experience losses, which would make it difficult to fund our operations and achieve our business plan, and could cause the market price of our common stock to decline.

We Will Need to Raise Additional Capital in the Future and May Not Be Able to Secure Adequate Funds on Terms Acceptable to Us, or at All. We have generated significant net losses in recent periods, and have experienced negative cash flows from operations in the amount of $16.8 million for the nine months ended December 31, 2001, and $20.1 million for the year ended March 31, 2001. We anticipate we will need to raise additional capital in the future. Our $16.0 million promissory note with Castle Creek Technology Partners LLC is due and payable in May 2002 and is secured by our real property in Anaheim, California that comprises our principal facilities. Our Iteris subsidiary also currently maintains a $5.0 million line of credit, which expires in August 2004. Substantially all of the assets of Iteris have been pledged to the lender to secure the outstanding indebtedness under this facility ($700,000 was outstanding at February 8, 2002). Even though we retired our bank line of credit in this quarter, we also incurred cash obligations in the amount of $3.0 million payable over the next 12 months related to our discontinuation of Mariner Networks and the reorganization of our European operations. We plan to sell or refinance our real property or to raise additional capital in the near future, either through bank borrowings, other debt or equity financings, or the divestiture of business units or select assets. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all. These conditions, together with our recurring losses and cash requirements, raise substantial doubt about our ability to continue as a going concern.

Our capital requirements will depend on many factors, including:

- our ability to control costs;
- our ability to enter into a sale/lease back transaction on acceptable terms with respect to our

Anaheim property;

- market acceptance of our products and the overall level of sales of our products;
- our ability to generate operating income;
- increased research and development funding, and required investments in our business units;
- increased sales and marketing expenses;
- technological advancements and our competitors' response to our products;

- capital improvements to new and existing facilities;

- potential acquisitions of businesses and product lines;

- our relationships with customers and suppliers; and

- general economic conditions including the effects of the current economic slowdown and international conflicts.

If our capital requirements are materially different from those currently planned, we may need additional capital sooner than anticipated. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced and such securities may have rights, preferences and privileges senior to our common stock. Additional financing may not be available on favorable terms or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to continue our operations as planned, or at all, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

The Trading Price of Our Common Stock Is Volatile. The trading price of our common stock has been subject to wide fluctuations in the past. Since January 2000, our Class A common stock has traded at prices as low as $1.24 per share and as high as $29.44 per share. If our stock price declines below $1.00 for an extended period of time, our common stock may be delisted from the Nasdaq National Market and there may not be a market for our stock. We may not be able to increase or sustain the current market price of our common stock in the future. At December 31, 2001, our net tangible asset and stockholder's equity were below the levels required by The NASDAQ National Market. Our expectations are that a combination of future operating results and the completion of our planned real estate sales will enable us to meet The NASDAQ requirements in the future. In the meantime, our failure to satisfy minimum listing requirements could jeopardize our continued listing on The NASDAQ National Market. As such, you may not be able to resell your shares of common stock at or above the price you paid for them. The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

- quarterly variations in operating results;

- our ability to control costs and improve cash flow;

- shortages announced by suppliers;

- announcements of technological innovations or new products by our competitors, customers or us;

- acquisitions or businesses, products or technologies;

- changes in pending litigation or new litigation;

- changes in investor perceptions;

- our ability to spin-off any business unit;

- applications or product enhancements by us or by our competitors; and

- changes in earnings estimates or investment recommendations by securities analysts.

We are Exposed to the Risks Associated with the Recent Worldwide Economic Slowdown and Related Uncertainties. Concerns about inflation, decreased consumer confidence, reduced corporate profits and capital spending, and recent international conflicts and terrorist and military actions have resulted in a downturn in worldwide economic conditions, particularly in the United States. As a result of these unfavorable economic conditions, we have experienced a slowdown in customer orders, cancellations and rescheduling of backlog and higher overhead costs. In addition, recent political and social turmoil related to international conflicts and terrorist acts can be expected to put further pressure on economic conditions in the U.S. and worldwide. These political, social and economic conditions make it extremely difficult for our customers, our suppliers and us to accurately forecast and plan future business activities. If such conditions continue or worsen, our business, financial condition and results of operations will likely be materially and adversely affected.

Our Quarterly Operating Results Fluctuate as a Result of Many Factors. Our quarterly revenues and operating results have fluctuated and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. Factors that could affect our revenues include, among others, the following:

. our ability to raise additional capital or monetize our real property;

. our significant investment in research and development for our subsidiaries and business units;

. our ability to control costs;

. international conflicts and acts of terrorism;

. our ability to develop, introduce, market and gain market acceptance of new products applications and product enhancements in a timely manner;

. the size, timing, rescheduling or cancellation of significant customer orders;

. the introduction of new products by competitors;

. the availability of components used in the manufacture of our products;

. changes in our pricing policies and the pricing policies by our suppliers and competitors, pricing concessions on volume sales, as well as increased price competition in general;

. the long lead times associated with government contracts or required by vehicle manufacturers;

. our success in expanding and implementing our sales and marketing programs;

. the effects of technological changes in our target markets;

. our relatively small level of backlog at any given time;

. the mix of sales among our business units;

. deferrals of customer orders in anticipation of new products, applications or product enhancements;

. the risks inherent in our acquisitions of technologies and businesses;

. risks and uncertainties associated with our international business;

. currency fluctuations and our ability to get currency out of certain foreign countries; and

. general economic and political conditions.

In addition, our sales in any quarter may consist of a relatively small number of large customer orders. As a result, the timing of a small number of orders may impact our quarter to quarter results. The loss of or a substantial reduction in orders from any significant customer could seriously harm our business, financial condition and results of operations.

Due to all of the factors listed above and other risks discussed in this report, our future operating results could be below the expectations of securities analysts or investors. If that happens, the trading price of our common stock could decline. As a result of these quarterly variations, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance.

Our Operating Strategy for Developing Companies is Expensive and May Not Be Successful. Our business strategy historically has required us to make significant investments in our business units. We expect to continue to invest in the development of certain of our business units with the goal of achieving profitability in each of our business units, and to a lesser extent, to monetize those business units for the benefit of our stockholders through an initial public offering, spin-off or sale to a strategic buyer. We may not recognize the benefits of this investment for a significant period of time, if at all. Our ability to achieve profitability in any business unit, to complete any private or public offerings of securities by any of our business units, and/or to spin-off our interest in the business unit to our stockholders will depend upon many

factors, including:

. the overall performance and results of operations of the particular business unit;

. the potential market for our business unit;

. our ability to assemble and retain a qualified management team for the business unit;

. our financial position and cash requirements;

. the business unit's customer base and product line;

. the current tax treatment of spin-off and sale transactions, and our ability to obtain favorable determination letters from the Internal Revenue Service; and

. general economic and market conditions, including the receptiveness of the stock markets to initial public offerings and private placements.

We may not be able to achieve profitability in our business units, to complete a successful private or public offering or to spin-off of any of our business units in the near future, or at all. During fiscal 2001, we attempted to complete the initial public offering of Iteris, but withdrew the offering due to adverse market conditions. Even if we are able to achieve profitability and the market is receptive to public offerings, we may decide not to complete any further offerings, spin-off a particular business unit, or delay the spin-off until a later date.

We Must Keep Pace with Rapid Technological Change to Remain Competitive. Our target markets are in general characterized by the following factors:

. 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 and changes in the regulatory environment.

Our future success will depend upon our ability to anticipate and adapt to changes in technology and industry standards, and to effectively develop, introduce, market and gain broad acceptance of new products and product enhancements incorporating the latest technological advancements.

We believe that we must continue to make substantial investments to support ongoing research and development in order to remain competitive. We need to continue to develop and introduce new products that incorporate the latest technological advancements in hardware, storage media, operating system software and applications software in response to evolving customer requirements. Our business and results of operations could be adversely affected if we do not anticipate or respond adequately to technological developments or changing customer requirements. We cannot assure you that any such investments in research and development will lead to any corresponding increase in revenue.

Our Future Success Depends on the Successful Development and Market Acceptance of New Products. We believe our revenue growth and future operating results will depend on our ability to complete development of new products and enhancements, introduce these products in a timely, cost-

effective manner, achieve broad market acceptance of these products and enhancements, and reduce our product costs. We may not be able to introduce any new products or any enhancements to our existing products on a timely basis, or at all. In addition, the introduction of any new products could adversely affect the sales of our certain of our existing products.

Our future success will also depend in part on the success of several recently introduced products including CommSync II, a Zyfer solution for secure, high speed, point-to-point communications; AutoVue, our lane departure warning system; and Airo 9.0, our broadcast automation solution. Market acceptance of our new products depends upon many factors, including our ability to accurately predict market requirements and evolving industry standards, our ability to resolve technical challenges in a timely and cost- effective manner and achieve manufacturing efficiencies, the perceived advantages of our new products over traditional products and the marketing capabilities of our independent distributors and strategic partners. Our business and results of operations could be seriously harmed by any significant delays in our new product development. Certain of our new products could contain undetected design faults and software errors or "bugs" when first released by us, despite our testing. We may not discover these faults or errors until after a product has been installed and used by our customers. Any faults or errors in our existing products or in any new products may cause delays in product introduction and shipments, require design modifications or harm customer relationships, any of which could adversely affect our business and competitive position.

We currently outsource the manufacture of our AutoVue product line to a single manufacturer. This manufacturer may not be able to produce sufficient quantities of this product in a timely manner or at a reasonable cost, which could materially and adversely affect our ability to launch or gain market acceptance of AutoVue.

We Have Significant International Sales and Are Subject to Risks Associated with Operating in International Markets. International sales represented 10% of our net sales and contract revenues for the nine months ended December 31, 2001, 20% for the fiscal year ended March 31, 2001, and 19% for the fiscal year ended March 31, 2000. During the three months ended December 31, 2001, we reorganized our European operations, which included the discontinuation of our Odetics Europe Ltd., Gyyr Europe Ltd., Mariner France and Mariner Europe Ltd. operations, and the transition of our Broadcast and MAXxess international operations to branch office operations with the intent of lowering our international costs. This reorganization may result in significantly lower international sales in future periods, unanticipated liabilities related to the closures, and may not achieve the anticipated cost savings. We may also face challenges in managing and transitioning our international operations as we have not traditionally operated through branch offices. In addition, the recent terrorist attacks in the United States and heightened security may adversely impact our international sales and could make our international operations more expensive.

International business operations are also subject to other inherent risks, including, among others:

- unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;
- longer accounts receivable payment cycles;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences;
- the burdens of compliance with a wide variety of foreign laws;
- import and export license requirements and restrictions of the United States and each other country in which we operate;

. exposure to different legal standards and reduced protection for intellectual property rights in some countries;

. currency fluctuations and restrictions; and

. political, social and economic instability.

We believe that international sales will continue to represent a significant portion of our revenues, and that continued growth and profitability may require further expansion of our international operations. Nearly all of our international sales from this point on are denominated in U.S. dollars. As a result, an increase in the relative value of the dollar could make our products more expensive and potentially less price competitive in international markets. We do not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations.

Any of these factors may adversely effect our future international sales and, consequently, effect our business, financial condition and operating results. Furthermore, as we increase our international sales, our 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.

We Need to Manage Operations and the Integration of Our Acquisitions. Over the past few years, we have expanded our operations and made several substantial acquisitions of diverse businesses, including Intelligent Controls, Inc., International Media Integration Services, Ltd., Meyer Mohaddes Associates, Inc., Viggen Corporation, and certain assets of the Transportation Systems business of Rockwell International. We may engage in former acquisitions of complementary businesses, products and technologies. Acquisitions may require significant capital infusions and, in general, acquisitions also involve a number of special risks, including:

. potential disruption of our ongoing business and the diversion of our resources and management's attention;

. the failure to retain or integrate key acquired personnel;

. the challenge of assimilating diverse business cultures, and the difficulties in integrating the operations, technologies and information system of the acquired companies;

. increased costs to improve managerial, operational, financial and administrative systems and to eliminate duplicative services;

. the incurrence of unforeseen obligations or liabilities;

. potential impairment of relationships with employees or customers as a result of changes in management; and

. increased interest expense and amortization of acquired intangible assets.

Acquisitions may also materially and adversely affect our operating results due to large write-offs, contingent liabilities, substantial depreciation, deferred compensation charges or goodwill amortization, or other adverse tax or audit consequences.

Our competitors are also soliciting potential acquisition candidates, which could both increase the price of any acquisition targets and decrease the number of attractive companies available for acquisition. We cannot assure you that we will be able to consummate any additional acquisitions, successfully integrate

any acquisitions or realize the benefits anticipated from any acquisition.

To the extent we complete any additional acquisitions, such acquisitions are expected to place a significant strain on our resources. If we engage in further acquisitions, we may be required to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. All of these updates will require substantial additional expense as well as management effort. Our failure to manage growth and integrate our acquisitions successfully could adversely affect our business, financial condition and results of operations.

We Depend on Government Contracts and Subcontracts and Face Additional Risks Related to Fixed Price Contracts. A significant portion of the sales by Iteris and a portion of our sales by Zyfer were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 25% and 26% of our total net sales and contract revenues for the years ended March 31, 2000 and 2001, respectively, and 65% for the three months ended December 31, 2001. We anticipate that revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

- long purchase cycles or approval processes;
- competitive bidding and qualification requirements;
- performance bond requirements;
- Changes in government policies and political agendas;
- delays in funding, budgetary constraints and cut-backs; and
- milestone requirements and liquidated damage provisions for failure to meet contract milestones.

In addition, a large number of our government contracts are fixed price contracts. As a result, we may not be able to recover for any cost overruns. These fixed price contracts require us to estimate the total project cost based on preliminary projections of the project's requirements. The financial viability of any given project depends in large part on our ability to estimate these costs accurately and complete the project on a timely basis. In the event our costs on these projects exceed the fixed contractual amount, we will be required to bear the excess costs. These additional costs adversely affect our financial condition and results of operations. Moreover, certain of our government contracts are subject to termination or renegotiation at the convenience of the government, which could result in a large decline in our net sales in any given quarter. Our inability to address any of the foregoing concerns or the loss or renegotiation of any material government contract could seriously harm our business, financial condition and results of operations.

The Markets in Which We Operate Are Highly Competitive and Have Many More Established Competitors. We compete with numerous other companies in our target markets and we expect such competition to increase due to technological advancements, industry consolidations and reduced barriers to entry. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could seriously harm our business, financial condition and results of operations. Many of our competitors have far greater name recognition and greater financial, technological, marketing and customer service resources than we do. This may allow them to respond more quickly to new or emerging technologies and changes in customer requirements. It may also allow them to devote greater resources to the development, promotion, sale and support of their products than we can. Recent consolidations of end users, distributors and manufacturers in our target markets have exacerbated this

problem. As a result of the foregoing factors, we may not be able to compete effectively in our target markets and competitive pressures could adversely affect our business, financial condition and results of operations.

We Cannot Be Certain of Our Ability to Attract and Retain Key Personnel and We Do Not Have Employment Agreements with Any Key Personnel. Due to the specialized nature of our business, we are highly dependent on the continued service of our executive officers and other key management, engineering and technical personnel, particularly Joel Slutzky, our Chairman of the Board, who recently retired as our Chief Executive Officer, and Gregory A. Miner, our Chief Executive Officer and Chief Financial Officer. We do not have any employment contracts with any of our four officers or key employees.

The leadership transition between Mr. Slutzky and Mr. Miner could adversely affect our business. Our success will also depend in large part upon our ability to continue to attract, retain and motivate qualified engineering and other highly skilled technical personnel. Competition for employees, particularly development engineers, is intense. We may not be able to continue to attract and retain sufficient numbers of such highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely affect upon our business, financial condition and results of operations.

We May Not be Able to Adequately Protect or Enforce Our Intellectual Property Rights. If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors could be able to access our proprietary technology and our business, financial condition and results of operations will likely be seriously harmed. We currently attempt to protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies or solutions. Our competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. As a result, we may not be able to protect our proprietary rights adequately in the United States or abroad.

From time to time, we have received notices that claim we have infringed upon the intellectual property of others. Even if these claims are not valid, they could subject us to significant costs. We have engaged in litigation in the past, and litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on terms acceptable to us, or at all. We also may have to indemnify certain customers or strategic partners if it is determined that we have infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect on our business, financial condition and results of operations. 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 seriously harm our business, financial condition and results of operations.

The stock market in general has recently experienced volatility, which has particularly affected the market prices of equity securities of many high technology companies. This volatility has often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been the subject of securities class action litigation. If we were to become the subject of a class action lawsuit, it could result in substantial losses and divert management's attention and resources from other matters.

We Are Controlled by Certain of Our Officers and Directors. As of February 8, 2002, our officers and directors beneficially owned approximately 26% of the total combined voting power of the outstanding shares of our Class A common stock and Class B common stock. As a result of their stock ownership, our management will be able to significantly influence the election of our directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how our other stockholders may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in our management or change in control and may adversely affect the voting or other rights of other holders of common stock.

Our Stock Structure and Certain Anti-Takeover Provisions May Affect the Price of Our Common Stock. Certain provisions of our certificate of incorporation and our stockholder rights plan could make it difficult for a third party to acquire us, even though an acquisition might be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. Our Class A common stock entitles the holder to one-tenth of one vote per share and our Class B common stock entitles the holder to one vote per share. The disparity in the voting rights between our common stock, as well as our insiders' significant ownership of the Class B common stock, could discourage a proxy contest or make it more difficult for a third party to effect a change in our management and control. In addition, our Board of Directors is authorized to issue, without stockholder approval, up to 2,000,000 shares of preferred stock with voting, conversion and other rights and preferences superior to those of our common stock, as well as additional shares of Class B common stock. Our future issuance of preferred stock or Class B common stock could be used to discourage an unsolicited acquisition proposal.

In March 1998, we adopted a stockholder rights plan and declared a dividend of preferred stock purchase rights to our stockholders. In the event a third party acquires more than 15% of the outstanding voting control of our company or 15% of our outstanding common stock, the holders of these rights will be able to purchase the junior participating preferred stock at a substantial discount off of the then current market price. The exercise of these rights and purchase of a significant amount of stock at below market prices could cause substantial dilution to a particular acquiror and discourage the acquiror from pursuing our company. The mere existence of a stockholder rights plan often delays or makes a merger, tender offer or proxy contest more difficult.

We Do Not Pay Cash Dividends. We have never paid cash dividends on our common stock and do not anticipate paying any cash dividends on either class of our common stock in the foreseeable future.

We May Be Subject to Additional Risks. The risks and uncertainties described above are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Substantially all of our debt outstanding at December 31, 2001 is fixed rate of interest and, accordingly, we do not have significant exposure to changes in interest rates. In addition, we believe that the carrying value of our debt outstanding approximate fair value.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Sales of unregistered Securities. During the three months ended December 30, 2001, Odetics issued an aggregate of 1,107,301 shares of its Class A common stock to the former shareholders of Meyer, Mohaddes Associates, Inc. pursuant to the Amendment to the Agreement and Plan of Reorganization dated October 30, 2001. No underwriters participated in this transaction. This transaction was exempt from registration by virtue of Section 4(2) of the Securities Act of 1933, as amended.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

In connection with the sale of substantially all of the assets and certain liabilities of Gyyr's CCTV Product Family to Silent Witness Enterprises Ltd. on September 12, 2001, Odetics filed a Form 8-K on October 8, 2001 to report the transaction. The assets, which include inventories, capital equipment, and intellectual property related principally to its analog and digital storage products business were sold for approximately $8.8 million in cash paid at closing, plus the assumption of approximately $1 million in liabilities.

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.

Dated: February 14, 2002

ODETICS, INC.
(Registrant)

By /s/ Gregory A. Miner

Gregory A. Miner
Chief Executive Officer and
Chief Financial Officer

By /s/ Gary Smith

Gary Smith
Vice President, Controller
(Principal Accounting Officer)