

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 December 31, 1996

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 FEBRUARY 10, 1996

CLASS A COMMON STOCK - 5,240,791 SHARES.
CLASS B COMMON STOCK - 1,135,531 SHARES.

INDEX

PART I FINANCIAL INFORMATION	Page
-----	----
ITEM 1. CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTH AND NINE MONTHS ENDED DECEMBER 31, 1995 AND 1996 (UNAUDITED)	3
CONSOLIDATED BALANCE SHEETS AT MARCH 31, 1996 AND DECEMBER 31, 1996 (UNAUDITED)	4
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED DECEMBER 31, 1995 AND 1996 (UNAUDITED)	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	9
Part II OTHER INFORMATION	

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	12
SIGNATURES	13

2

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,	
	1995	1996	1995	1996
	-----	-----	-----	-----
Net sales and contract revenues:				
Net sales	\$24,356	\$34,290	\$65,204	\$ 93,413
Contract revenues	3,038	2,018	8,112	7,291
	-----	-----	-----	-----
	27,394	36,308	73,316	100,704
Costs and expenses:				

Cost of sales	16,684	21,699	43,319	60,104
Cost of contract revenues	1,364	1,166	4,232	3,843
Selling, general and administrative expenses	6,073	7,585	16,841	21,220
Research and development expenses	1,573	4,073	4,957	9,380
Interest expense	552	516	1,835	1,453
	-----	-----	-----	-----
	26,246	35,039	71,184	96,000
	-----	-----	-----	-----
Income before income taxes	1,148	1,269	2,132	4,704
Income taxes	423	495	797	1,835
	-----	-----	-----	-----
Net Income	\$ 725	\$ 774	\$ 1,335	\$ 2,869
	=====	=====	=====	=====
Weighted average number of shares outstanding	6,309	6,702	6,099	6,576
	=====	=====	=====	=====
Net income per share of common stock	\$ 0.11	\$ 0.12	\$ 0.22	\$ 0.44
	=====	=====	=====	=====

See notes to consolidated financial statements.

-3-

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	MARCH 31, 1996	DEC. 31, 1996 (UNAUDITED)
	-----	-----
ASSETS		
Current Assets		
Cash	\$ 1,142	\$ 461
Trade accounts receivable, net	24,772	27,214
Costs and estimated earnings in excess of billings on uncompleted contracts	3,428	2,538
Inventories:		
Finished goods	3,717	2,693
Work in process	2,927	2,633
Materials and supplies	16,076	16,511
	-----	-----
Total inventories	22,720	21,837
Prepaid expenses	1,122	1,550
Deferred income taxes	2,516	2,516
	-----	-----
Total Current Assets	55,700	56,116
Property, plant and equipment		
Land	2,090	2,090
Buildings and improvements	17,553	17,786
Equipment, furniture and fixtures	24,914	27,134
	-----	-----
	44,557	47,010
Less accumulated depreciation	(22,950)	(24,821)
	-----	-----
Net property, plant and equipment	21,607	22,189
Other Assets	1,504	2,494
	-----	-----
Total Assets	\$ 78,811	\$ 80,799
	=====	=====

See notes to consolidated financial statements.

-4-

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	MARCH 31, 1996 -----	DEC. 31, 1996 (UNAUDITED) -----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	\$ 11,519	\$ 9,851
Accrued expenses	2,441	5,217
Accrued incentive programs	1,229	1,044
Accrued vacation	1,504	1,643
Income taxes payable	1,412	1,604
Billings in excess of costs and estimated earnings on uncompleted contracts	5,414	3,511
Current portion of long-term debt	1,791	1,927
	-----	-----
Total current liabilities	25,310	24,797
Long-term debt - Less current portion	22,019	19,528
Deferred income taxes	497	503
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; 5,211,319 shares of class A and 1,135,531 shares of class B issued and outstanding at December 31, 1996 - \$.10 par value	610	635
Paid-in capital	21,905	23,892
Foreign currency translation	(10)	95
Retained earnings	8,480	11,349
	-----	-----
Total stockholders' equity	30,985	35,971
	-----	-----
Total liabilities and stockholders' equity	\$ 78,811 =====	\$ 80,799 =====

See notes to consolidated financial statements.

-5-

ODETICS, INC.

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

	NINE MONTHS ENDED DECEMBER 31,	
	1995	1996
OPERATING ACTIVITIES		
Net income	\$ 1,335	\$ 2,869
Adjustments to reconcile net income to net cash provided by (used) in operating activities:		
Depreciation and amortization	2,026	2,790
Provision for inventory reserves	946	450
Provision for losses on accounts receivable	99	196
Provision (Benefit) for deferred income taxes	795	198
Net proceeds from settlement of litigation	0	5,860
Gain on sale of assets	(30)	(186)
Foreign currency translation gain (loss)	(21)	105
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	(2,933)	(4,358)
(Increase) Decrease in costs and estimated earnings in excess of billings on uncompleted contracts	(1,169)	890
(Increase) Decrease in inventories and prepaid expenses	1,718	(1,633)
(Increase) in other assets	(719)	(1,358)
Increase (Decrease) in accounts payable and accrued expenses	1,100	(1,525)
Increase (Decrease) in billings in excess of costs and estimated earnings on uncompleted contracts	1,267	(1,903)
Net cash provided by (used) in operating activities	4,414	2,395
INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(2,258)	(2,739)
Proceeds from sale of equipment	47	7
Net cash used in investing activities	(2,211)	(2,732)
FINANCING ACTIVITIES		
Proceeds from revolving line of credit and long-term borrowings	27,360	41,940
Principal payments on line of credit, long-term debt and capital lease obligations	(28,728)	(44,296)
Proceeds from sale of common stock	370	2,012
Net cash used in financing activities	(998)	(344)
Increase (Decrease) in cash	1,205	(681)
Cash at beginning of year	378	1,142
Cash at December 31	\$ 1,583	\$ 461
	=====	=====

See notes to consolidated financial statements.

-6-

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

Note 1 - In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals necessary to present fairly the Company's consolidated financial position as of December 31, 1996 and the consolidated results of operations for the three-month and nine-month periods ended December 31, 1995 and 1996 and its cash flows for the nine-month periods ended December 31, 1995 and 1996. 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 nine-month period ended December 31, 1996 are not necessarily indicative of those to be expected for the entire year.

Note 2 - Income tax expense for the three-month and nine-month periods ended
 - ----- December 31, 1995 and 1996 have 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
 - -----

	(in thousands)	
	March 31, 1996	December 31, 1996
	-----	-----
Line of credit	\$10,700	\$ 9,400
Mortgage note	11,040	10,399
Contracts payable	2,070	1,656
	-----	-----
	23,810	21,455
Less current portion	1,791	1,927
	-----	-----
	\$22,019	\$19,528
	=====	=====

Note 4 - In November 1994 and February 1995, the Company and E-Systems, Inc.
 - ----- (E-Systems), respectively filed legal actions related to E-Systems' cancellation of purchase orders for ATL Products' DataLibrary and DataTower products. In May 1996, the parties entered into a settlement agreement under which, among other things, E-Systems agreed to pay the Company \$6,160,000, and all claims asserted by the parties were released and the litigation dismissed. In addition, the parties agreed to an equitable disposition of disputed inventory and entered into a five year service agreement for Odetics to service units that had been sold to E-Systems at agreed upon prices. The Company has not to recorded any material gain or loss based on the terms of the settlement agreement.

Note 5 - In December, 1996, ATL Products, Inc., ("ALT") a wholly owned subsidiary of Odetics, filed a registration statement with the Securities and Exchange Commission covering an initial public offering of 1,650,000 shares of its common stock. Following the completion of the offering, Odetics will own 8,005,000 shares, or 82.9% of the common stock of ATL. Subject to certain conditions, including the receipt of a favorable ruling from the Internal Revenue Service, Odetics intends to distribute all of its shares of ATL to Odetics stockholders in a tax-free spin-off prior to December 31, 1997. The Registration Statement relating to these securities has been filed with the Securities Exchange Commission but has not yet become effective.

ODETICS, INC.

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

Results of Operations

Net sales and contract revenues consist of sales of products and services to commercial customers ("Net Sales") and revenues derived from contracts with the agencies of the United States Government or its prime contractor and long-term contracts with foreign entities related to space recorders for geographical information systems ("contract revenues"). Net sales and contract revenues for Odetics, Inc. (the "Company") in the quarter ended December 31, 1996 increased approximately \$8,914,000 or 32.5% compared to the third quarter of the prior fiscal year. The increase reflects a \$9,934,000, or 40.8% increase in net sales which was offset partially by a \$1,020,000, or 33.6% decrease in contract revenues. Net sales and contract revenues for the nine-months ended December 31, 1996 increased approximately \$27,388,000, or 37.4%, compared to the same period in the prior fiscal year. For the nine-months ended December 31, 1996, net sales increased 43.3%, and contract revenues decreased 10.1%.

The growth in net sales for the third quarter and nine-month period was primarily due to an increase in sales in the Company's wholly owned subsidiary, ATL Products, Inc. ("ATL"). ATL's sales growth resulted from increased unit sales of DLT-based tape library products. The Company's Communication Division experienced growth in sales in its telecommunication products from increased unit sales of its synchronization products for cellular telephone systems and sales of its LIMO family of products for telecommunication interfacess. The Company's Gyyr Division experienced 15% and 6% growths in revenues respectively for the third quarter and nine-month period while the Company's Broadcast Division decreased 3%, and 12% in revenues respectively compared to the third quarter and nine-months ended December 31, 1995.

Cost of sales and contract revenues as a percentage of net sales and contract revenues ("the cost of sales percentage") decreased to 63.0% in the third quarter ended December 31, 1996 from 65.9% during the same period in the prior fiscal year. The cost of sales percentage for the nine-months ended December 31, 1996 decreased to 63.5% from 64.9% for the same period in the prior fiscal year. The decrease in the cost of sales percentage principally reflects improved absorption of fixed manufacturing overhead costs on higher sales volume at ATL.

Selling, general, and administrative expenses ("S,G,&A") increased \$1,512,000 in the third quarter ended December 31, 1996 compared to the third quarter of the prior year and increased \$4,379,000 in the nine-months ended December 31, 1996, compared to the prior fiscal year. The increase principally reflects increased expenses for advertising, sales commissions, and labor costs and related benefits attendant to the Company's expanded commercial sales and marketing activities. As a percentage of net sales, SG&A have decreased in all interim periods presented because of increased sales volume.

Research and development (R&D) expenses increased approximately \$2,500,000 to 11.2% of net sales and contract revenues for the third quarter ended December 31, 1996 compared to 5.7% for the third quarter of fiscal year 1996. R&D expenses for the nine months ended December, 1996 increased approximately \$4,423,000 to 9.3% of net sales and contract revenues compared to 6.8% for the comparable period in the prior fiscal year. The increased R&D expenses primarily reflect

material, consulting, and to a lesser extent, labor and related benefits accompanying the development of new tape library products in the Company's ATL Products subsidiary.

Interest expense declined approximately \$36,000 and \$382,000 for the third quarter and nine-month periods of fiscal 1997, respectively, compared to the same periods for the prior fiscal year. These decreases were primarily due to overall lower average borrowings.

The effective income tax rate was 39% for the nine-month period of fiscal 1997 compared to a 37% tax rate for the same period of the prior year. The increase in the effective tax rate projected for fiscal 1997 is due to a reduction in the effect of general business tax credits on total income tax expense.

Liquidity and Sources of Capital

The Company reported net income of \$2,869,000 during the nine-months ended December 31, 1996 and cash flow from operating activities of \$2,395,000. Cash flow from operating activities included the receipt of net proceeds from the settlement of the litigation with E-Systems (see Note 4 of Notes to Consolidated Financial Statements), which was offset by an increases in accounts receivable and inventories aggregating \$5,991,000 to support increased commercial product sales. The Company has a \$17,000,000 bank line of credit providing for borrowings generally at or below the bank's prime rate. Borrowing's are available for general working capital purposes, and at December 31, 1996, \$7,600,000 was available for borrowing under the line. The Company anticipates that net cash flow from operating activities in conjunction with its bank credit arrangements will be sufficient to execute its operating plans and meet its obligations on a timely basis. The Company does not have any material commitments for capital expenditures as of December 31, 1996.

ODETICS, INC.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

There were no reports on Form 8-K filed for the three-month period ended December 31, 1996.

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 February 14, 1996

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