

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 June 30, 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 address 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 July 30, 1996

Class A Common Stock - 5,144,208 shares.

Class B Common Stock - 1,129,431 shares.

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PART I
ITEM 1 FINANCIAL INFORMATION

ODETICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)
(Unaudited)

	THREE MONTHS ENDED JUNE 30,	
	-----	-----
	1995	1996
	-----	-----
Net sales and contract revenues:		
Net sales	\$ 19,167	\$ 28,304
Contract revenues	2,270	2,499
	-----	-----

	21,437	30,803
Costs and expenses:		
Cost of sales	12,185	18,206
Cost of contract revenues	1,359	1,272
Selling, general and administrative expenses	5,143	6,893
Research and development expenses	1,730	2,288
Interest expense	680	493
	-----	-----
	21,097	29,152
	-----	-----
Income before income taxes	340	1,651
Income taxes	129	644
	-----	-----
Net Income	\$ 211	\$ 1,007
	=====	=====
Weighted average number of shares outstanding	5,965	6,477
	=====	=====
Net income per share of common stock	\$ 0.04	\$ 0.16
	=====	=====

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	MARCH 31, 1996	JUNE 30, 1996 (UNAUDITED)
ASSETS	-----	-----
Current Assets		
Cash	\$ 1,142	\$ 512
Trade accounts receivable, net	24,772	22,259
Costs and estimated earnings in excess of billings on uncompleted contracts	3,428	3,733
Inventories:		
Finished goods	3,717	2,914
Work in process	2,927	2,959
Materials and supplies	16,076	17,880
	-----	-----
Total inventories	22,720	23,753

Prepaid expenses	1,122	1,070
Deferred income taxes	2,516	2,516
	-----	-----
Total Current Assets	55,700	53,843
Property, plant and equipment		
Land	2,090	2,090
Buildings and improvements	17,553	17,585
Equipment, furniture and fixtures	24,914	25,745
	-----	-----
	44,557	45,420
Less accumulated depreciation	(22,950)	(23,543)
	-----	-----
Net property, plant and equipment	21,607	21,877
Other Assets	1,504	2,130
	-----	-----
Total Assets	\$ 78,811	\$ 77,850
	=====	=====

See notes to consolidated financial statements.

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ODETICS, INC.

CONSOLIDATED BALANCE SHEETS (cont'd)
(in thousands)

	MARCH 31, 1996	JUNE 30, 1996 (UNAUDITED)
LIABILITIES AND STOCKHOLDERS' EQUITY	-----	-----
Current Liabilities		
Trade accounts payable	\$ 11,519	\$ 10,880
Accrued expenses	2,441	5,797
Accrued incentive programs	1,229	786
Accrued vacation	1,504	1,516
Income taxes payable	1,412	1,176
Billings in excess of costs and estimated earnings on uncompleted contracts	5,414	4,821
Current portion of long-term debt	1,791	1,653
	-----	-----
Total current liabilities	25,310	26,629
Long-term debt - Less current portion	22,019	17,566
Deferred income taxes	497	495
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; 5,132,323 shares of class A and 1,139,431 shares of class B issued and outstanding at June 30, 1996 - \$.10 par value	610	627
Paid-in capital	21,905	22,997
Foreign currency translation	(10)	49
Retained earnings	8,480	9,487
	-----	-----
Total stockholders' equity	30,985	33,160
	-----	-----
Total liabilities and stockholders' equity	\$ 78,811	\$ 77,850
	=====	=====

See notes to consolidated financial statements.

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ODETICS, INC.

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

	THREE MONTHS ENDED JUNE 30,	
	1995	1996
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 211	\$ 1,007
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	563	853
Provision for inventory reserves	152	572
Provision for losses on accounts receivable	43	41
Provision (Benefit) for deferred income taxes	11	(238)
Net proceeds from settlement of litigation	0	5,860
Gain on sale of assets	0	(200)
Foreign currency translation gain	4	59
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	(1,139)	752
(Increase) in costs and estimated earnings in excess of billings on uncompleted contracts	(356)	(305)
(Increase) Decrease in inventories and prepaid expenses	1,544	(3,083)
(Increase) in other assets	(236)	(687)
Increase (Decrease) in accounts payable and accrued expenses	(2,020)	(301)
Increase (Decrease) in billings in excess of cost and estimated earnings on uncompleted contracts	425	(593)
	-----	-----
Net cash provided by (used in) operating activities	(798)	3,737
INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(233)	(884)

Net cash used in investing activities	(233)	(884)
FINANCING ACTIVITIES		
Proceeds from revolving line of credit and long-term borrowings	10,750	12,100
Principal payments on line of credit, long-term debt and capital lease obligations	(9,769)	(16,691)
Proceeds from sale of common stock	1	1,108
Net cash provided by (used in) financing activities	982	(3,483)
Increase (decrease) in cash	(49)	(630)
Cash at beginning of year	378	1,142
Cash at June 30	\$ 329	\$ 512

See notes to consolidated financial statements.

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 June 30, 1996 and the consolidated results of operations and cash flows for the three-month periods ended June 30, 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 three-month period ended June 30, 1996 are not necessarily indicative of those to be expected for the entire year.

Note 2 - Income tax expense for the three-month periods ended June 30, 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

	1996	1996
	-----	-----
Line of credit	\$10,700	\$ 6,600
Mortgage note	11,040	10,830
Contracts payable	2,070	1,789
	-----	-----
	23,810	19,219
Less current portion	1,791	1,653
	-----	-----
	\$22,019	\$17,566
	=====	=====

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, 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 does not expect to record any material gain or loss based on the terms of the settlement agreement.

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ODETICS, INC.

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

Results of Operations

Net sales and contract revenues for Odetics, Inc. (the "Company") in the first quarter of fiscal year 1997 increased approximately \$9,366,000 or 43.7% compared to the first quarter of the prior fiscal year. The components of this overall increase consisted of an increase in net sales (commercial products) of approximately \$9,137,000, or 47.7% and an increase in contract revenues (government products) of approximately \$229,000, or 10.1%.

The 47.7% growth in commercial net sales reflects a sharp increase in sales in the Company's wholly owned subsidiary, ATL Products, Inc. ("ATL"). ATL's sales growth resulted from the introduction of new products and expansion of their sales channels for their product offerings. The Company's Communication division also showed strong growth with sales of it's synchronization products for cellular telephone systems.

Cost of sales and contract revenues as a percentage of net sales and contract revenues for the first quarter of fiscal 1997 when compared to the same period in the prior fiscal year held constant at 63.2%.

Selling, general, and administrative (SG&A) expenses increased approximately \$1,750,000, although as a percentage of net sales and contract revenues, SG&A declined to 22.4% in the current year first quarter compared to 24.0% in the prior year first quarter. SG&A expenses increased due to increased selling expenses to support the increased commercial product sales primarily in the areas of commissions, advertising, and labor and related benefits.

Research and development (R&D) expenses increased approximately \$558,000, although as a percentage of net sales and contract revenues, R&D declined to

7.4% in the current first year quarter compared to 8.1% in the prior year first quarter. The increased R&D expenses reflect prototype material, consulting and labor and related benefits accompanying increased new product development activities.

Interest expense decreased approximately \$187,000 for the first quarter for fiscal 1997 compared to the same period during the prior fiscal year primarily due to decreased line of credit borrowings.

The effective income tax rate was 39% for the first quarter of fiscal 1997 compared to a 38% 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.

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Liquidity and Sources of Capital

The Company reported net income of \$1,007,000 during the first quarter of fiscal 1997 and cash flow from operating activities of \$3,737,000. 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 partially offset by an increase in inventories to support increased commercial product sales, especially in the Company's ATL Products Subsidiary. The Company has a \$17,000,000 bank line of credit providing for borrowings generally at or below the bank's prime rate. Borrowings are available for general working capital purposes, and at June 30, 1996, \$10,400,000 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 June 30, 1996.

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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 June 30, 1996.

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ODETICS, INC.

SIGNATURES

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

ODETICS, INC.
(Registrant)

By /s/ GREGORY A. MINER

Gregory A. Miner
Vice President, Chief Financial Officer

By /s/ GARY SMITH

Gary Smith
Vice President, Controller
(Principal Accounting Officer)

Date August 14, 1996

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