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, 2000

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 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, 2001

Class A Common Stock 9,463,416 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 I 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,	
	1999	2000	1999	2000
Net sales and contract revenues:				
Net sales	$ 15,171	$ 14,070	$ 47,875	$ 43,087
Contract revenues	4,436	4,798	13,979	14,430
Total net sales and contract revenues	19,607	18,868	61,854	57,517
Costs and expenses:				
Cost of sales	13,920	14,086	37,930	37,307
Cost of contract revenues	3,225	2,891	10,197	9,202
Gross Profit	2,462	1,891	13,727	11,008
Selling, general and administrative expense	9,214	10,119	26,566	32,052
Research and development expense	3,964	5,237	12,172	15,411
Special charge	0	6,285	0	6,285
Total operating expenses	13,178	21,641	38,738	53,748
Loss from operations	(10,716)	(19,750)	(25,011)	(42,740)
Non-operating items				
Other income	(38,437)	0	(38,437)	(19,055)
Interest expense, net	454	201	1,821	1,102
Income (loss) before taxes	27,267	(19,951)	11,605	(24,787)
Income tax benefit	6,575	0	0	0

Net loss	$ 20,692	($19,951)	$ 11,605	($24,787)
Earnings (loss) per share:				
Basic	$2.27	($1.90)	$1.28	($2.53)
Diluted	$2.18	($1.90)	$1.24	($2.53)
Weighted average number of shares outstanding				
Basic	9,128	10,494	9,076	9,802
Diluted	9,485	10,494	9,353	9,802

See notes to consolidated financial statements

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2000	December 31, 2000
ASSETS		
Current assets		
Cash	$ 4,880	$ 948
Trade accounts receivable, net	13,576	14,791
Costs and estimated earnings in excess of billings on uncompleted contracts	3,283	2,872
Inventories:		
Finished goods	1,203	1,164
Work in process	859	241
Materials and supplies	16,150	15,310
Total inventories	18,212	16,715
Prepaid expenses	1,978	1,475
Income taxes receivable	0	0
Deferred income taxes	0	0
Total current assets	41,929	36,801
Property, plant and equipment:		
Land	2,060	2,060
Buildings and improvements	18,868	18,981
Equipment, furniture and fixtures	33,328	35,360
	54,256	56,401
Less accumulated depreciation	(33,520)	(35,260)
Net property, plant, and equipment	20,736	21,141
Capitalized software costs, net	6,482	2,208
Goodwill, net	12,004	11,033
Other assets	699	169
Total assets	$ 81,850	$ 71,352

See notes to consolidated financial statements.

ODETICS, INC.
CONSOLIDATED BALANCE SHEETS (cont'd)
(in thousands)

	March 31, 2000	December 31, 2000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 10,702	$ 12,593
Accrued payroll and related	4,892	4,731
Accrued expenses	2,313	2,132
Contract loss accrual	3,056	2,593
Billings in excess of costs and estimated earnings on uncompleted contracts	1,303	2,017
Revolving line of credit	3,706	6,812
Other current liabilities	0	0
Current portion of long-term debt	3,102	2,214
Total current liabilities	29,074	33,092
Long-term debt, less current portion	11,666	10,023
Other liabilities	5,000	0
Deferred income taxes	0	0
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; 9,453,516 shares of Class A and 1,045,741 shares of Class B issued and outstanding at December 31, 2000 - $.10 par value	923	1,050
Paid-in capital	61,200	78,569
Treasury stock	(22)	(1)
Notes receivable from associates	(61)	(61)
Accumulated deficit	(26,192)	(50,978)
Accumulated other comprehensive income	262	(342)
Total stockholders' equity	36,110	28,237
Total liabilities and stockholders' equity	$ 81,850	$ 71,352

See notes to consolidated financial statements.

ODETICS, INC.

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

	Nine Months Ended December 31,	
	1999	2000
Operating activities		
Net income (loss)	$ 11,605	$(24,787)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		

Depreciation and amortization	4,624	7,490
Provision for losses on accounts receivable	0	46
Provision for deferred income taxes	233	0
Other	0	(604)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	4,146	(1,261)
(Increase) Decrease in net costs and estimated earnings in excess of billings	46	1,125
(Increase) Decrease in inventories	1,146	1,497
(Increase) Decrease in prepaids and other assets	(3,361)	1,037
Increase (Decrease) in accounts payable and accrued expenses	(5,154)	1,083
Net cash provided by (used in) operating activities	13,285	(14,374)
Investing activities		
Purchases of property, plant, and equipment	(1,914)	(2,145)
Software development costs	(331)	0
Net (cash) used in investing activities	(2,245)	(2,145)
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	22,456	19,894
Principal payments on line of credit, long-term debt and capital lease obligations	(28,875)	(24,319)
Proceeds from issuance of common stock	1,158	17,012
Net cash provided by (used in) financing activities	(5,261)	12,587
Increase in cash	5,779	(3,932)
Cash at beginning of year	787	4,880
Cash at December 31	$ 6,566	$ 948
Non cash transaction		
MMA purchase price adjustment	$ 0	$ 505

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, necessary to present fairly the consolidated financial position of Odetics, Inc. as of December 31, 2000 and the consolidated results of operations and cash flows for the three and nine month periods ended December 31, 1999 and 2000. 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 and nine month periods ended December 31, 2000 are not necessarily indicative of those to be expected for the entire year. The accompanying financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended March 31, 2000 filed with the Securities and Exchange Commission.

Odetics has a $17.0 million line of credit with Transamerica Business Credit that provides for borrowings at prime plus 2.0% (11.5% at December 31, 2000). At December 31, 2000, Odetics had $6.8 million of outstanding borrowings on this line of credit. Odetics borrowing under this line of credit are secured by substantially all of its assets. The line of credit with Transamerica Business Credit expired on December 31, 2000 and Odetics received an extension on the line until February 28, 2001 to allow time for it to negotiate a financing arrangement with another lender. Odetics has executed a non-binding letter of intent with another lender to secure a line of credit and is working to complete the financing with the new lender. Although Odetics anticipates that it will be successful in negotiating the new financing agreement, there can be no assurance that its efforts will be successful.

The Odetics strategy of incubating companies for eventual spin-off or sale has historically required significant investments of cash. Odetics recently announced reductions to its operating expenses and staffing levels accompanied by its announcement that it was planning to operate to a revised business model focused on narrowing its quarterly operating costs and negative cash flow. In spite of its revised business model, Odetics is anticipating that it will continue to incur net losses and negative operating cash flow for at least several quarters and is dependent upon completing other transactions to provide necessary liquidity. Odetics is currently exploring several alternatives for meeting its liquidity requirements, including the monetization of its real property used for its principal facilities, the re-negotiation of its credit facilities, the sale of additional equity in its Iteris subsidiary, and the sale of certain of its businesses to strategic buyers. Odetics anticipates that it will be successful in its efforts to continue to finance its capital requirements and that it will be able to execute its current operating plans and meet its obligations on a timely basis for at least the next twelve months.

NOTE 2 - Income Taxes

Income tax expense (benefit), if any, for the three and nine month periods ended December 31, 1999 and 2000 has been provided at the estimated annualized effective tax rates based on the estimated income tax liability or assets 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, reserves for inventory and accounts receivable for financial statement purposes and general business tax credit and alternative minimum tax credit carryforwards for tax purposes. The Company did not provide income tax benefit for the losses incurred three month and nine month periods ended December 31, 2000 due to the uncertainty as to the ultimate realization of the benefit at that time.

NOTE 3 - Long-Term Debt

	March 31, 2000	December 31, 2000
	(in thousands)	
Mortgage note	$ 7,027	$ 6,099
Notes payable	5,750	4,750
Contracts payable	1,991	1,388
	14,768	12,237
Less current portion	3,102	2,214
	$11,666	$10,023

NOTE 4 - Legal Proceedings

On October 11, 1999, Odetics settled a patent infringement case it had brought against Storage Technology Corporation ("StorageTek"). Pursuant to an agreement, StorageTek agreed to pay the Company a license fee totaling $100.0 million for use of the Company's 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. In connection with the initial payment, the Company received $38.4 million, net of legal fees and other direct expenses, which was reflected as royalty income in the Company's statement of operations in its fiscal year ended March 31, 2000.

On June 12, 2000, the Company 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, included in non-operating income in the nine months ended December 31, 2000 is $17.8 million, which was recognized in the quarter ended June 30, 2000.

NOTE 5 - Comprehensive Income

The components of comprehensive income (loss) for the three months and nine months ended December 31, 1999 and 2000 are as follows in thousands:

	Three Months		Nine Months	
	1999	2000	1999	2000
Net (loss)	$20,692	$(19,951)	$11,605	$(24,787)
Foreign currency translation adjustment	218	(39)	219	(604)
Comprehensive (loss)	$20,910	$(19,990)	$11,824	$(25,391)

NOTE 6 - Business Segment Information

The Company operates in three reportable segments: intelligent transportation systems, video products, which includes products for the television broadcast and video security markets, and telecommunications. Selected financial information for the Company's reportable segments for the three month and nine month periods ended December 31, 1999 and 2000 follows in thousands:

(in thousands)	Intelligent Transportation	Video Products	Telecom Products	Total
Three months ended 12/31/99				
Revenue from external customers	6,243	8,867	1,925	17,035
Intersegment revenues	0	2,113	26	2,139
Segment income (loss)	(491)	(5,440)	(2,498)	(8,429)

(in thousands)
Three months ended 12/31/00

Revenue from external customers	7,707	7,220	2,037	16,964
Intersegment revenues	0	1,254	74	1,328
Segment income (loss)	(659)	(6,976)	(3,020)	(10,655)

The following reconciles segment income to consolidated income before income taxes in thousands:

	3 months ended December 31, 1999	3 months ended December 31, 2000
Revenue		
Total revenues for reportable segments	19,174	18,292
Non-reportable segment revenues	2,572	1,904
Other revenues	0	0
Elimination of intersegment sales	(2,139)	(1,328)
Total consolidated revenues	19,607	18,868
Total profit or loss for reportable segments	(8,429)	(10,655)
Other profit or loss	37,724	(1,487)
Unallocated amounts:		
Corporate and other expenses	(1,574)	(1,323)
Special charge	0	(6,285)
Interest expense	(454)	(201)
Income (loss) before income taxes	27,267	(19,951)

	Intelligent Transportation	Video Products	Telecom Products	Total
Nine months ended 12/31/99				
Revenue from external customers	17,448	30,193	7,630	55,271
Intersegment revenues	0	4,617	66	4,683
Segment income (loss)	(1,947)	(10,997)	(5,317)	(18,261)
Nine months ended 12/31/00				
Revenue from external customers	20,028	25,809	5,157	50,994
Intersegment revenues	0	4,034	116	4,150
Segment income (loss)	(4,283)	(14,346)	(8,434)	(27,063)

The following reconciles segment income to consolidated income before income taxes in thousands:

	9 months ended December 31, 1999	9 months ended December 31, 2000
Revenue		
Total revenues for reportable segments	$ 59,954	$ 55,144
Non-reportable segment revenues	6,583	6,523
Other revenues	0	0

Elimination of intersegment sales	(4,683)	(4,150)
Total consolidated revenues	61,854	57,517
Total loss for reportable segments	(18,261)	(27,063)
Other profit or (loss)	36,348	(3,939)
Unallocated amounts:		
Corporate and other expenses	(4,661)	13,602
Special charge	0	(6,285)
Interest expense	(1,821)	(1,102)
Loss before income taxes	$ 11,605	$(24,787)

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in this Report and in the Annual Report on Form 10-K of 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 projected revenues and results of operations, funding and cash requirements, supply issues, market acceptance of new products, the Odetics 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." Odetics' 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. Odetics undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Results of Operations

General. We define our business segments as Video Products, Telecom Products, and Intelligent Transportation Systems ("ITS"). The Video Products segment includes our Broadcast, Inc. and our Gyyr Incorporated subsidiaries. The Telecom Products segment includes Zyfer, Inc., which manufactures timing and synchronization products, and Mariner Networks, Inc., a wholly owned subsidiary, which manufactures multi-service access devices for the telecommunications industry. The ITS segment consists of Odetics' 93% owned subsidiary Iteris, Inc.

In January 2000, we announced the reorganization of our business to reduce our operating expenses and improve our cash flow. We downsized our operations (i) in Broadcast to focus on software content management and delivery, (ii) in Gyyr to focus on data storage and (iii) to reduce the operations, cost structure of each of our operating units domestically and in Europe. In connection with this reorganization, we reduced our workforce by approximately 25%.

Net Sales and Contract Revenues. Net sales and contract revenues consist of (i) sales of products and services to commercial and municipal customers ("net sales") and (ii) revenues derived from contracts with state, county and municipal agencies for ITS ("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 contract revenues decreased 3.8% to $18.9 million for the three months ended December 31, 2000 compared to $19.6 million in the corresponding period of the prior fiscal year. Total net sales and contract revenues decreased 7.0% to $57.5 million for the nine months ended December 31, 2000 compared to $61.9 million in the corresponding period of the prior fiscal year. Contract revenues increased 8.2% to $4.8 million for the three months ended December 31, 2000 compared to $4.4 million in the corresponding period of the prior fiscal year. Contract revenues increased 3.2% to $14.4 million for the nine months ended December 31, 2000 compared to $14.0 million in the corresponding period of the prior fiscal year. Contract revenues in Iteris increased 9.3% and 8.6% in the three and nine months ended December 31, 2000, respectively, compared to the corresponding periods of the prior fiscal year resulting from the increased growth in the transportation management systems business of Iteris. Iteris has continued to execute on its plans to aggressively compete for new contracts for ITS projects. The increases in Iteris were offset by decreased contract revenues in Zyfer. The decrease in year to date contract revenues in Zyfer reflects declining sales of geographical information systems.

Net sales decreased 7.3% to $14.1 million for the three months ended December 31, 2000 compared to $15.2 million in the corresponding period of the prior fiscal year. Net sales decreased 10.0% to $43.1 million for the nine months ended December 31, 2000 compared to $47.9 million in the

corresponding period of the prior fiscal year. The decrease in net sales in the three months ended December 31, 2000 compared to the corresponding period of the prior year primarily reflects the net effect of a decrease in sales of Gyyr products and an increase in sales of Iteris products. Gyyr net sales decreased 24% to $7.3 million during the three months ended December 31, 2000 compared to the corresponding period of the prior fiscal year. Gyyr revenues during the quarter were negatively impacted by an increasingly competitive market and reduced unit sales of analog time lapse recorders.

The decrease in net sales in the nine months ended December 31, 2000 compared to the corresponding period of the prior year reflects declining sales in each business unit of Odetics other than Iteris, offset in part by increased Iteris net sales. Iteris net sales in the three and nine months ended December 31, 2000 primarily reflects increased unit sales of its Vantage video detection products. Mariner Networks net sales during the nine months ended December 31, 2000 were negligible, as Mariner did not begin shipping its Dexter family of multi-service access devices until December 2000. Broadcast net sales decreased during the nine months ended December 31, 2000 compared to the corresponding period of the prior fiscal year as Broadcast experienced declining sales of its Roswell Automation System in fiscal 2001. Gyyr net sales decreased during the nine months ended December 31, 2000 compared to the corresponding period of the prior fiscal year as Gyyr experienced increased competitive market conditions for its line of analog based time-lapse recorders during the current year period. Zyfer net sales remained relatively stable during the nine months ended December 31, 2000 compared to the corresponding period of the prior fiscal year.

Gross Profit. Gross profit on 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 on net sales for the three months ended December 31, 2000, before the effect of these write-offs, was 22.1% compared to gross profit on net sales of 8.3% in the corresponding period in the prior fiscal year. Gross profit for the nine months ended December 31, 2000, before the effect of the these write-offs, was 20.6%, and was relatively unchanged compared to gross profit on net sales for the corresponding period of the prior fiscal year. The increase in gross profit performance, before the adjustments for the write-off of inventory, in the three months ended December 31, 2000 compared to the corresponding period of the prior fiscal year, primarily reflects improving gross profit on a 67.1% increase in Vantage product sales in the current year. In addition, gross profit on net sales in the three months ended December 31, 1999 included the impact of pricing concessions to certain customers and adjustments to inventory reserves and capitalized software related to a product transition in Mariner Networks that resulted from the loss of a major customer.

Gross profit on contract revenues increased to 39.8% for the three months ended December 31, 2000 compared to 27.3% in the comparable period of the prior fiscal year. For the nine months ended December 31, 2000, gross profit margin on contract revenues increased to 36.2% from 27.1% in the comparable period of the prior fiscal year. The increase in gross profit on contract revenues for the three and nine months ended December 31, 2000 primarily reflects improved gross profits on contract revenues in Zyfer and Iteris in the current fiscal year. The Company recognizes contract revenues and related gross profits using percentage of completion contract accounting, and the related gross profits recognized in any given period will be affected by the underlying mix of contract activity.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 9.8% to $10.1 million (or 53.6% of total net sales and contract revenues) in the three months ended December 31, 2000 compared to $9.2 million (or 46.9% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Selling, general and administrative expense increased 20.7% to $32.1 million (or 55.7% of total net sales and contract revenues) for the nine months ended December 31, 2000 compared to $26.6 million (or 43.0% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Selling, general and administrative expense in each of our business units reflects the unique growth attributes and maturity of each operation, and the increases experienced in the three and nine months ended December 31, 2000 were primarily incurred in Mariner Networks and Iteris. Mariner Networks' selling, general and administrative expense increased 224.6% and 149.9 % in the three

and nine months ended December 31, 2000, respectively, compared to the prior year periods as a result of its organizational development required to support the roll-out of its Dexter 3000 product family beginning in December 2000. Iteris experienced increased selling, general and administrative expense as a result of its build up of its administrative infrastructure required to prepare for spin-off from Odetics, which was originally planned in the three months ended June 30, 2000. As a result of the aborted public offering and spin-off in the current fiscal year, selling, general and administrative expense in the nine months ended December 31, 2000 included a charge of approximately $360,000 relating to the write-off deferred public offering costs.

Research and Development Expense. Research and development expense increased 32.1% to $5.2 million (or 27.8% of total net sales and contract revenues) in the three months ended December 31, 2000 compared to $4.0 million (or 20.2% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. For the nine months ended December 31, 2000, research and development expense increased 26.7% to $15.4 million (or 26.8% of total net sales and contract revenues) compared to $12.2 million (or 19.7% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The increase in research and development expense for the three and nine months ended December 31, 2000 principally reflects increased product development expense in Zyfer, Mariner Networks and Iteris. Zyfer's research and development expense increased 34.8% in the nine months ended December 31, 2000 compared to the same period of the prior year as a result of the development of StealthKey(TM) , its product offering for secured network communications. Mariner Networks increased research and development expense by 44.1% and 24.2% in the three and nine months ended December 31, 2000, respectively, compared to the prior periods as a result of the continued development of its Dexter 3000 product family. Dexter 3000 represents a new offering of multi-service access products for the telecommunications industry. Mariner began limited shipments of the Dexter product in December 2000 and expects to continue to experience significant development expenses for expanded functionality and performance of the product. Iteris' research and development expense increased 100.6% and 85.8% in the three and nine months ended December 31, 2000, respectively, compared to the prior year periods as a result of development efforts supporting its AutoVue product and the development of solutions for Personalized Traveler Information. In December 2000, Iteris substantially reduced its spending related to the development of Personalized Traveler Information systems and expects that these expenses will continue to decline both in absolute dollars and as a percentage of net sales and contract revenues in future quarters. For competitive reasons, we closely guard the confidentiality of our specific development projects.

Interest Expense, Net. Interest Expense, Net reflects interest income and interest expense as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1999	2000	1999	2000
	(in thousands)			
Interest Expense.........	454	277	1,821	1,352
Interest Income..........	--	76	--	250
Interest Expense, Net....	454	201	1,821	1,102

Interest expense primarily reflects interest on our line of credit borrowings and mortgage interest. Interest income in the three and nine months ended December 31, 2000 was derived from short-term investments of cash deposits. The decrease in interest expense for the three and nine months ended December 31, 2000 compared to the prior fiscal periods primarily reflects a decrease in our average outstanding borrowings on our line of credit facility.

Income Taxes. On October 11, 1999, Odetics settled its litigation with Storage Technology Corporation ("StorageTek") pursuant to which StorageTek agreed to pay license fees to Odetics of $100.0 million. Odetics realized royalty income of approximately $38.4 million in the three months ended December 31, 1999 as a result of the settlement, and recorded related tax expense of $6.6 million. The tax expense

recognized in the three months ended December 31, 1999 offset previous benefits recognized in the three months ended September 30, 1999 so that no benefit or expense was recognized for the nine months ended December 31, 1999. We did not recognize any tax benefits in the three and nine months ended December 31, 2000 because management determined that we could not meet the criteria for the recognition of the resulting deferred tax asset.

Liquidity and Capital Resources

We reported net losses of $24.8 million in the nine months ended December 31, 2000 compared to net losses of $11.6 million in the corresponding period in 1999. Net losses recognized in the nine months ended December 31, 2000 were net of non-operating gains of $19.1 million relating to a litigation settlement with StorageTek, and included charges totaling $9.4 million related to staffing reductions and reorganization. The total $9.4 million in charges were incurred in the three months ended December 31, 2000 and included $3.1 million of charges to cost of sales and a $6.3 million charge classification within operating expenses. Approximately $1.3 million of the charges incurred during the three months ended December 31, 2000 were related to severance payments for staffing reductions, and the balance of the non-cash charges related to asset write-downs and reserves in connection with the discontinuation of certain products, as well as deferred offering costs. We also used $14.4 million of net cash to fund the operating losses for working capital requirements during the nine months ended December 31, 2000. We used $2.1 million of net cash during the nine months ended December 31, 2000 to finance capital equipment purchases.

We have a $17.0 million line of credit with Transamerica Business Credit that provides for borrowings at prime plus 2.0% (11.5% at December 31, 2000). At December 31, 2000, $6.8 million was outstanding on this line of credit. Our borrowings under this line of credit are secured by substantially all of our assets. The line of credit with Transamerica Business Credit expired on December 31, 2000 and we have received an extension on the line until February 28, 2001 to allow us to negotiate a financing arrangement with another lender. We have executed a non-binding letter of intent with another lender to secure a line of credit and we are working to complete the financing with the new lender. Although we anticipate that we will be able to successfully negotiate the new financing agreement, we can not assure you that our efforts will be successful.

During the nine months ended December 31, 2000, Odetics recognized non-operating income in connection with the settlement with StorageTek and the sale of certain assets of our solid state recorder product line. In October 1999, we settled litigation with StorageTek in exchange for license fees payable to us of $100.0 million, $80.0 million of which was paid on the settlement date. In June 2000, we amended the settlement agreement with StorageTek to provide for the acceleration of the payment of the $20.0 million still owed Odetics. Under the terms of the amendment, StorageTek paid us $17.8 million in the three months ended June 30, 2000 to complete the settlement. We recognized non-operating income in the amount of $17.8 million, and used the cash proceeds to pay down borrowings on our line of credit during the three months ended June 30, 2000. During the three months ended June 30, 2000, Odetics sold certain assets of its solid state recording product line for $1.5 million in cash. In connection with this sale, we recorded a non-operating gain of $1.2 million in the six months ended September 30, 2000. During the three months ended December 31, 2000, Odetics negotiated the sale of certain assets of its Zyfer business. This transaction was completed in February 2001 and Odetics received proceeds of $375,000 in cash related to the sale. The proceeds were approximately equal to the net assets sold, and we expect any resulting gain or loss on this transaction will be immaterial.

In July 1999, Odetics sold an option to Manchester Capital LLC for an aggregate purchase price of $5.0 million to purchase certain real property of Odetics consisting of approximately 14 acres located at 1515 South Manchester Avenue, Anaheim, California. Odetics used the proceeds of the option sale for general working capital purposes. In August 2000, Odetics repurchased this option from Manchester Capital LLC for $5.6 million.

Our strategy of incubating companies for eventual spin-off or sale has historically required significant investments of cash. We recently announced reductions in our operating expenses and staffing levels accompanied by our announcement that we were planning to operate to a revised business model focused on narrowing our quarterly operating costs and negative cash flow. In spite of our revised business model, we are anticipating that we will continue to incur net losses and negative operating cash flow for at least several quarters and we are dependent upon completing other transactions to provide necessary liquidity. We are currently exploring several alternatives for meeting our liquidity requirements, including the monetization of the real property used for our principal facilities, the re-negotiation of our credit facilities, the sale of additional equity in our Iteris subsidiary, and the sale of certain of our businesses to strategic buyers. We anticipate that we will be successful in our efforts to continue to finance our capital requirements and that we will be able to execute our current operating plans and meet our obligations on a timely basis for at least the next twelve months.

Pending Adoption of Statement of Financial Accounting Standards No. 133

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). SFAS No. 133 establishes new standards for recording derivatives in interim and annual financial reports requiring that all derivative instruments be recorded as assets or liabilities, measured at fair value. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, and therefore we will adopt the new requirements effective with the filing of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001. We do not anticipate that the adoption of SFAS No. 133 will have a significant impact on our results of operations, financial position or cash flows.

Pending Adoption of Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB No. 101). SAB No. 101 summarizes the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. We review our sales contracts on an ongoing basis to ensure our compliance with SAB No. 101. We do no anticipate that adoption of SAB 101 will have a material impact on previously reported or future results of operations, financial position or cash flows.

RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report. You should consider the following risks carefully in addition to the other information contained in this report before purchasing the shares of our common stock. If any of the following risks actually occur, they could seriously harm our business, financial condition or results of operations. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

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

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

- our ability to control costs;

- 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 manufacturerers;
- 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 market 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.

We Have Experienced Substantial Losses and Expect Future Losses. We have experienced significant operating losses of $42.7 million for the nine months ended December 31, 2000, $38.7 million for the year ended March 31, 2000 and $18.3 million for the year ended March 31, 1999. 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. We cannot assure you that this reorganization 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 could cause the market price of our common stock to decline.

We May Need Additional Capital in the Future and May Not Be Able to Secure Adequate Funds on Terms Acceptable to Us. Our line of credit facility expired on December 31, 2000. While we have received an extension on this facility until February 28, 2001, we will need to obtain a new line of credit from another lender in the near future. Substantially all of our assets have been pledged to our existing lender to secure the outstanding indebtedness under this facility ($6.8 million at December 31, 2000). We have received a non-binding letter of intent from another lender to secure a $25 million line of credit, but we cannot assure you that we will be able to obtain this line of credit on a timely basis, on acceptable terms, or at all. Even if we are able to secure a new line of credit, we anticipate that we will need to raise additional capital in the near future, either through additional bank borrowings, the monetization of certain real property, the divestiture of business units or select assets, or other debt or equity financings. Our capital requirements will depend on many factors, including:

- market acceptance of our products;
- increased research and development funding, and required investments in our business units;
- our ability to generate operating income;
- technological advancements and our competitors' response to our products;
- capital improvements to new and existing facilities;
- increased sales and marketing expenses; and
- potential acquisitions of businesses and product lines; and additional working capital needs.

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 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 develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

Our Operating Strategy for developing companies is Expensive and May Not Be Successful. We have initiated a business strategy called our incubator strategy, which is expensive and highly risky. The goal of this strategy is to nurture and develop companies that can be spun-off to our stockholders. This strategy has in the past required us to make significant investments in our business units, both for research and development, and also to develop a separate infrastructure for certain of our business units, sufficient to allow the unit to function as an independent public company. We expect to continue to invest heavily in the development of certain of our business units with the goal of conducting additional public offerings. We may not recognize the benefits of this investment for a significant period of time, if at all. Our ability to complete an initial public offering of any of our business units and/or spin-off our interest 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 broad, 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 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.

We may not be able to complete a successful initial public offering or spin-off of any of our business units in the near future, or at all. During fiscal 2000, we attempted to complete the initial public offering of Iteris. We withdrew the offering due to adverse market conditions. Even if we do complete additional public offerings, we may decide not to spin-off a particular business unit, or to 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 DVMS, our family of digital time-lapse recorders; AutoVue, our lane departure warning system; and Dexter, our multi-service access device.

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. We have experienced delays in the past in the introduction of new products, particularly with our Roswell system, which we recently discontinued. 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 anticipate that we will 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 product sales represented approximately 19% of our total net sales and contract revenues for the fiscal year ended March 31, 2000, approximately 27% for the fiscal year ended March 31, 1999 and approximately 34% for the fiscal year ended March 31, 1998.

International business operations are subject to 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. Our international sales are currently denominated primarily 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, on our business 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 Growth 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, certain assets of the Transportation Systems business of Rockwell International, and the Security Products Division of Digital Systems Processing, Inc. A key element of our business strategy involves expansion through the acquisition 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.

Acquisitions, combined with the expansion of our business units and recent growth has placed and is expected to continue to place a significant strain on our resources. To accommodate this growth, we anticipate that we will 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 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 23% and 25% of our total net sales and contract revenues for the year ended March 31, 2000 and the nine months ended December 31, 2000, respectively. 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;
- competitive bidding and qualification requirements;
- performance bond requirements;
- 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 Chief Executive Officer and Chairman of the Board, and Gregory A. Miner, our Chief Operating Officer and Chief Financial Officer. We do not have any employment contracts with any of our officers or key employees. The loss of any of these persons would seriously harm our development and marketing efforts, and would 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 Trading Price of Our Common Stock Is Volatile. The trading price of our common stock has been subject to wide fluctuations in the past. In 2000, our Class A common stock has traded at prices as low as $4 3/16 per share and as high as $29 7/16 per share. We may not be able to increase or sustain the current market price of our common stock in the future. 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.

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 volatilities 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 December 31, 2000, our officers and directors beneficially owned approximately 28% 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. In addition, holders of the Class B common stock are presently entitled to elect six of our nine directors. 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 the 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

Most of the Company's debt outstanding at December 31, 2000 is fixed rate debt and, accordingly, the Company does not have significant exposure to changes in interest rates.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

NONE

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

NONE

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

None

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)

Dated: February 14, 2001