FORM 10-Q

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

(Mark One)

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

For the quarterly period ended September 30, 1995

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 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 November 08, 1995

Class A Common Stock - 4,923,999 shares.
Class B Common Stock - 1,161,031 shares.

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PART 1 FINANCIAL INFORMATION

ODETICS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	1994	1995	1994	1995
Net sales and contract revenues:				
Net sales	$19,426	$21,681	$37,395	$40,848
Contract revenues	3,244	2,804	7,760	5,074
	22,670	24,485	45,155	45,922

Costs and expenses:				
Cost of sales	12,828	14,450	25,143	26,635
Cost of contract revenues	1,583	1,509	3,613	2,868
Selling, general and administrative expenses	5,384	5,625	10,295	10,768
Research and development expenses	2,309	1,654	4,396	3,384
Interest expense	489	603	926	1,283
	22,593	23,841	44,373	44,938
Income before income taxes	77	644	782	984
Income taxes	26	245	266	374
Net Income	$ 51	$ 399	$ 516	$ 610
Weighted average number of common shares outstanding	6,014	6,058	5,987	6,011
Net income per share of common stock	$ 0.01	$ 0.07	$ 0.09	$ 0.10

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 1995	Sept. 30, 1995 (unaudited)
ASSETS		
Current assets		
Cash	$ 378	$ 181
Trade accounts receivable	17,813	18,896
Costs and estimated earnings in excess of billings on uncompleted contracts	3,136	3,854
Inventories:		
Finished goods	2,690	2,893
Work in process	2,702	1,905
Materials and supplies	20,075	18,606
Total inventories	25,467	23,404
Prepaid expenses and other	1,533	1,541
Deferred income taxes	2,683	2,309
Total current assets	51,010	50,185
Property, plant and equipment:		
Land	2,090	2,090
Buildings and improvements	16,948	17,345
Equipment, furniture and fixtures	22,727	23,419
	41,765	42,854
Less accumulated depreciation	(21,056)	(22,155)
Net property, plant and equipment	20,709	20,699
Other assets	639	1,126
Total assets	$ 72,358	$ 72,010

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 1995	Sept. 30, 1995 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 8,155	$ 8,126
Accrued expenses	3,693	2,704
Accrued vacation	1,178	1,332
Billings in excess of costs and estimated earnings on uncompleted contracts	3,955	5,394
Current portion of long-term debt	1,296	1,539
Total current liabilities	18,277	19,095
Long-term debt - less current portion	25,757	23,909
Deferred income taxes	588	599
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; 4,831,925 shares of class A and 1,161,031 shares of class B issued and outstanding at September 30, 1995 - $.10 par value	595	599
Paid-in capital	21,067	21,119
Foreign currency translation	46	51
Retained earnings	6,028	6,638
Total stockholders' equity	27,736	28,407
Total liabilities and stockholders' equity	$72,358	$72,010

See notes to consolidated financial statements.

ODETICS, INC.

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

	Six Months Ended September 30, 1994	Six Months Ended September 30, 1995
Operating activities		
Net income	$ 516	$ 610
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,127	1,269
Provision for inventory reserves	831	304
Provision for losses on accounts receivable	84	66
Provision for deferred income taxes	141	11
Foreign currency translation gain	5	5
(Gain) on sale of equipment	0	(30)
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	46	(1,149)
(Increase) Decrease in costs and estimated earnings in excess of billings on uncompleted contracts	86	(718)
(Increase) Decrease in inventories and prepaid expenses	(5,289)	2,125
(Increase) in other assets	(330)	(552)
(Decrease) in accounts payable and accrued expenses	(2,026)	(864)
Increase (Decrease) in billings in excess of cost and estimated earnings on uncompleted contracts	(742)	1,439
Net cash provided by (used in) operating activities	(5,551)	2,516
Investing activities		
Purchases of property, plant, and equipment	(1,334)	(1,214)
Proceeds from sale of equipment	0	47
Net cash used in investing activities	(1,334)	(1,167)
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	11,870	18,219
Principal payments on line of credit, long-term debt and capital lease obligations	(5,305)	(19,824)
Proceeds from sale of common stock	383	59
Net cash provided by (used in) financing activities	6,948	(1,546)
Increase (decrease) in cash	63	(197)
Cash at beginning of year	172	378
Cash at September 30	$ 235	$ 181

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 September 30, 1995 and it's results of operations for the three-month and six-month periods ended September 30, 1994, and 1995 and it's cash flows for the six-month periods ended September 30, 1994 and 1995. 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 six-month period ended September 30, 1995 are not necessarily indicative of those to be expected for the entire year.

Note 2 - Income tax expense for three-month and the six-month periods ended September 30, 1994 and 1995 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, 1995	September 30, 1995
Line of credit	$14,100	$11,300
Mortgage note	11,829	11,444
Contracts payable	1,124	2,704
	27,053	25,448
Less current portion	1,296	1,539
	$25,757	$23,909

During April 1995, the Company secured borrowings of $1,750,000 collateralized by equipment, payable in monthly installments through March 1999, including interest at 8.99%. In the second quarter of fiscal 1996, the Company violated certain of the financial covenants in its line of credit agreement with its primary banks. The Company received a waiver of those covenants as of September 30, 1995 and anticipates an amendment to the financial covenants in the line of credit agreement during the third quarter of fiscal 1996.

Note 4 - On November 15, 1994, the Company filed suit in the Superior Court of Los Angeles, California ("California Action"), against E-Systems, Inc. for breach of contract due to

cancellation of all remaining purchase orders for ATL Products' DataLibrary and DataTower products under an agreement which extended until 1996. Additionally, the Company's suit claims breach of contract for the return and cancellation of a purchase order for ATL Products' ACL 5480 and ACL 2640 products. Shortly prior to the filing of the suit, E-Systems had notified the Company of its cancellation of all purchase orders under the above mentioned agreements due to alleged product reliability problems.

On February 2, 1995, E-Systems filed a countersuit in the District Court of Dallas, Texas ("Texas Action"), against the Company for breach of good faith and fair dealing whereby it is alleged that the Company did not provide reliable "commercial" products--ATL Products' DataLibrary Systems and DataTower Systems. The Company believes the claims of the countersuit from E-Systems are without merit and will be vigorously defended.

On May 15, 1995, E-Systems filed a cross-complaint in the California Action ("California Cross-Complaint"). Although somewhat differently phrased than the Texas Action, the California Cross-Complaint appears to seek recovery for the same claims as made by E-Systems in the Texas Action. The California Cross-Complaint is stated in two counts, one pertaining to DataLibraries and one pertaining to DataTowers. The Company believes the claims of the California Cross-Complaint are without merit and will be vigorously defended.

Both the initial suit and countersuit are in preliminary discovery and other pretrial investigation proceedings and will proceed concurrently in the California Court. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any losses or recovery that may occur from the ultimate resolution of the litigation has been made in the accompanying financial statements.

In June 1995, the Company filed suit against Storage Technology Corporation ("Storage Technology") and certain other defendants in United States Federal Court for the Eastern District of Virginia, Alexandria Division, alleging that certain products manufactured and sold by Storage Technology infringe on the Company's patented technology. The Company seeks injunctive relief against further infringement and monetary damages according to proof, which are subject to trebling under certain circumstances. In its answer to the Company's complaint in this action, Storage Technology has asserted counterclaims against the Company and the ATL Products Division for alleged infringement of certain patented technology of Storage Technology. The matter is scheduled for trial on January 22, 1996. Management intends to vigorously prosecute the Company's claim and defend against Storage Technology's counterclaims. No prediction can be made as to the likely outcome of this matter, but management believes that the outcome of the suit is not likely to have a material adverse effect on the Company's business or financial condition.

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

Results of Operations

Net sales and contract revenues for the second quarter of fiscal year 1996 increased approximately $1,815,000, or 8.0%, compared to the second quarter of the prior fiscal year. The components of this overall increase consisted of an increase in net sales (commercial products) of approximately $2,255,000, or 11.6%, which was partially offset by a decrease in contract revenues (government products) of approximately $440,000, or 13.6%. Net sales and contract revenues for the six month period of fiscal year 1996 increased approximately $767,000, or 1.7%, compared to the same period in the prior fiscal year. For the six month period of fiscal year 1996 net sales were up 9.2%, and contract revenues were down 34.6%.

The growth in net sales for the second quarter and six month period was primarily due to increased sales in the Company's Broadcast Division. The Broadcast Division's sales growth reflected an increase in shipments of its SpotBank/TM/ and the Cache Machine/TM/ along with initial revenues of its new TCS45/TM/ system. The Communication Division also showed strong growth in its synchronization product line with sales of its recently developed cellular synchronization system sold into the Korean telecom market. The

Company's wholly owned subsidiary, ATL Products, Inc ("ATL") experienced a decrease in revenues compared to the same period in the prior fiscal year. This decrease was due to the absence this year of a major customer, E-Systems, which comprised approximately 13% of Odetics' total net sales and contract revenues for the second quarter and six month periods of fiscal 1995. ATL showed strong growth in its' product lines utilizing DLT, which helped partially offset the overall decrease in ATL revenues. Government product revenues decreased primarily due to the slowdown in government spending and the Company's transition away from certain government markets.

Cost of sales and contract revenues as a percentage of net sales and contract revenues ("cost of sales percentage") increased to 65.2% from 63.6% during the same period in the prior fiscal year. The cost of sales percentage for the six month period of fiscal 1996 increased to 64.2% from 63.7% for the same period in the prior fiscal year. This increase was a result of a sales mix favoring increased commercial product sales which generally carry a higher cost of sales percentage and a decline in government sales which traditionally carry a lower cost of sales percentage.

Selling, general and administrative (SG&A) expenses increased approximately $241,000, though as a percentage of net sales and contract revenues, SG&A declined to 23.0% compared to 23.7% in the comparable quarter in the prior fiscal year. SG&A expenses increased approximately $473,000 to 23.4% of net sales and contract revenues for the six months of fiscal 1996 compared to the 22.8% for the comparable period in the prior fiscal year. SG&A expenses increased for the second quarter and six month period compared to the same periods in the prior fiscal year primarily due to professional fees related to the E-Systems litigation.

Research & development (R&D) expenses decreased approximately $655,000 to 6.8% of net sales and contract revenues for the second quarter of fiscal year 1996 compared to 10.2% for the second quarter of fiscal 1995. R&D expenses for the first six months of fiscal 1996 decreased approximately $1,012,000 to 7.4% of net sales and contract revenues compared to 9.7% for the comparable period in the prior fiscal year. The decrease in R&D expenses as a percentage of net sales and contract revenues reflected the effect of certain cost-cutting measures taken during the second half of fiscal 1995 and completion of certain major R&D programs in the fourth quarter of fiscal 1995.

Interest expense increased approximately $114,000 and $357,000 for the second quarter and six month periods of fiscal 1996, respectively, compared to the same periods for the prior fiscal year. This increase was primarily due to increased line of credit borrowings and increased interest costs.

The effective income tax rate was 38% for the six month period of fiscal 1996 compared to a 34% tax rate for the same period in the prior fiscal year. The increase in the effective tax rate projected for fiscal 1996 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 $610,000 during the first six months of fiscal 1996 and cash flow from operating activities of $2,516,000. This was primarily due to a decrease in inventories and prepaid expenses of $2,125,000. 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 September 30, 1995, $5,700,000 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 September 30, 1995.

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 September 30, 1995.

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, 1995

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