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 June 30, 1999

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 (Address of principal executive office)	92802 (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 AUGUST 10, 1999

Class A Common Stock - 8,003,233 shares.
Class B Common Stock - 1,060,041 shares.

INDEX

PART I FINANCIAL INFORMATION	Page
ITEM 1. CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS JUNE 30, 1998 AND 1999 (UNAUDITED)	3

	CONSOLIDATED BALANCE SHEETS AT MARCH 31, 1999 AND JUNE 30, 1999 (UNAUDITED)	4
	CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED JUNE 30, 1998 AND 1999 (UNAUDITED)	6
	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	10

PART II OTHER INFORMATION

ITEM 1.	LEGAL PROCEEDINGS	22
ITEM 2.	CHANGES IN SECURITIES AND USE OF PROCEEDS	22
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	22
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	22
ITEM 5.	OTHER INFORMATION	22
ITEM 6.	EXHIBITS AND REPORTS ON FORM 8-K	22
SIGNATURES		23

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

PART 1 FINANCIAL INFORMATION

ODETICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share amounts)
(Unaudited)

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1999
Net sales and contract revenues:		
Net sales	$17,057	$ 17,370
Contract revenues	2,722	4,705
Total net sales and contract revenues	19,779	22,075
Costs and expenses:		
Cost of sales	12,546	12,203
Cost of contract revenues	1,815	3,160
Selling, general and administrative expense	7,993	8,859
Research and development expense	2,604	3,879
Interest expense, net	358	617
	25,316	28,718
Loss before taxes	(5,537)	(6,643)

Income taxes	0	0
Net loss	($5,537)	($6,643)
Basic and diluted loss per share	($0.76)	($0.74)
Weighted average number of shares outstanding	7,265	9,030

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 1999	June 30, 1999
ASSETS		
Current Assets		
Cash	$ 787	$ 1,734
Trade accounts receivable, net	18,889	18,249
Costs and estimated earnings in excess of billings on uncompleted contracts	2,423	2,616
Inventories:		
Finished goods	1,101	1,203
Work in process	749	685
Materials and supplies	14,135	12,855
Total inventories	15,985	14,743
Prepaid expenses	1,295	1,235
Income taxes receivable	531	302
Deferred income taxes	1,558	1,558
Total Current Assets	41,468	40,437
Property, plant and equipment		
Land	2,060	2,060
Buildings and improvements	18,674	18,714
Equipment, furniture and fixtures	31,303	31,757
	52,037	52,531
Less accumulated depreciation	(29,561)	(30,529)
Net property, plant and equipment	22,476	22,002
Capitalized software costs, net	7,667	7,484
Other Assets	10,926	10,664
Total Assets	$ 82,537	$ 80,587

See notes to consolidated financial statements.

ODETICS, INC.

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 1999	June 30, 1999
Current Liabilities		
Trade accounts payable	$ 10,454	$ 9,992
Accrued payroll and related	5,441	4,883
Accrued expenses	1,933	2,348
Contract loss accrual	3,892	3,774
Billings in excess of costs and estimated earnings on uncompleted contracts	1,276	1,117
Current portion of long-term debt	2,074	2,074
Total current liabilities	25,070	24,188
Revolving line of credit	10,997	16,616
Long-term debt - Less current portion	8,965	8,462
Deferred income taxes	1,182	1,292
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; 7,997,778 shares of class A and 1,060,041 shares of class B issued and outstanding at June 30, 1999 - $.10 par value	901	906
Paid-in capital	59,579	59,813
Treasury stock	(240)	(240)
Note receivable from associates	(96)	(96)
Retained earnings	(23,913)	(30,556)
Accumulated other comprehensive income	92	202
Total stockholders' equity	36,323	30,029
Total liabilities and stockholders' equity	$ 82,537	$ 80,587

See notes to consolidated financial statements.

ODETICS, INC.

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

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1999
Operating activities		
Net income (loss)	($5,537)	($6,643)

Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,011	1,434
Provision for losses on accounts receivable	66	0
Provision for deferred income taxes	10	339
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	2,057	640
(Increase) Decrease in net costs and estimated earnings in excess of billings	733	(352)
(Increase) Decrease in inventories	1,074	1,242
(Increase) Decrease in prepaids and other assets	2,286	139
Increase (Decrease) in accounts payable and accrued expenses	(3,978)	(613)
Net cash used in operating activities	(2,278)	(3,814)
Investing activities		
Purchases of property, plant, and equipment	(652)	(494)
Software development costs	(1,015)	(102)
Cash received on note receivable	1,056	0
Net cash provided by (used in) investing activities	(611)	(596)
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	15,110	11,102
Principal payments on line of credit, long-term debt and capital lease obligations	(10,225)	(5,984)
Proceeds from issuance of common stock	(1)	239
Net cash provided by financing activities	4,884	5,357
Decrease in cash	1,995	947
Cash at beginning of year	1,131	787
Cash at June 30	$ 3,126	$ 1,734

See notes to consolidated financial statements.

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

Note 1- Basis of Presentation

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 June 30, 1999 and the consolidated results of operations and cash flows for the three month periods ended June 30, 1998 and 1999. 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, 1999 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, 1999 filed with the Securities and Exchange Commission.

Note 2- Income Taxes

Income tax expense (benefit) for the three month period ended June 30, 1998 and 1999 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 has not provided income tax benefit for the losses incurred in fiscal 1998 and 1999 due to the uncertainty as to the ultimate realization of the benefit.

Note 3- Long-Term Debt

	(in thousands) March 31, 1999	June 30, 1999
Mortgage note	8,173	7,894
Contracts payable	2,866	2,642
	11,039	10,536
Less current portion	2,074	2,074
	$8,965	$ 8,462

NOTE 4- Legal Proceedings

We brought an action against Storage Technology Corporation ("StorageTek") in the Eastern District Court of Virginia alleging that StorageTek had infringed our patent covering robotics tape cassette handling systems (United States Patent No. 4,779,151). StorageTek counterclaimed alleging that we infringed several of StorageTek's patents. Prior to trial, the court dismissed two of the infringement claims against us and the third claim was resolved between the parties. In January 1996, the jury determined that the patent claims were not infringed under the doctrine of equivalents based upon a claim construction defined by the court prior to the trial. The jury also concluded that our patent was not invalid. In June 1997, the United States Court of Appeals for the Federal Circuit vacated the lower court's claim construction and findings of noninfringement of our patent. The appellate court remanded the case for consideration of infringement under a proper claim construction. In August 1997, the appellate court denied a petition for rehearing requested by StorageTek. The case has been returned to the Federal District Court for retrial, and in March 1998, the jury awarded us damages in the amount of $70.6 million. In June 1998, the U.S. District Court for the Eastern District of Virginia granted an injunction against StorageTek enjoining StorageTek from making, selling or using any infringing devices, including the ACS4400, PowderHorn, Wolfcreek and Genesis automated tape library systems that include a pass through port. In June 1998, the U.S. District Court issued an order requesting the parties to brief the issues of whether StorageTek's motion for judgment as a matter of law should have been granted, and whether the injunction previously ordered by the court against StorageTek should be stayed pending appeal. After filing hearings, the trial court vacated its own injunction and granted StorageTek's motion for judgment as a matter of law to vacate the jury trial result and to find StorageTek not infringing. We have appealed these and other court rulings. The defendants also cross-appealed certain other court rulings. In July 1999 the U.S. Court of Appeals for the Federal Circuit reversed the trial court's judgement of non-infringement and reinstated the verdict of $70.6 million. StorageTek has filed a petition for rehearing by either the three judge panel that decided the case or en banc, i.e. by all of the active judges on the court. A decision from the U.S. Court of Appeals is pending this petition.

NOTE 5- Comprehensive Income

The components of comprehensive income (loss) for the three months ended June 30, 1998 and 1999 are as follows:

	1998	1999
Net income (loss)	$(5,537)	$(6,643)
Foreign currency translation adjustment	16	110
Comprehensive income (loss)	$(5,521)	$(6,533)

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 quarters ended June 30, 1998 and 1999 follows:

	Intelligent Transportation	Video Products	Telecom Products	Total
Three months ended 6/30/98				
Revenue from external customers	3,515	11,973	3,313	18,801
Intersegment Revenues	0	545	9	554
Segment income (loss)	(1,051)	(1,208)	(949)	(3,208)
(in thousands)				
Three months ended 6/30/99				
Revenue from external customers	5,097	11,444	3,644	20,185
Intersegment Revenues	0	1,167	16	1,183
Segment income (loss)	(688)	(2,177)	(1,015)	(3,880)

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

(in thousands)	3 months ended June 30, 1998	3 months ended June 30, 1999
Revenue		
Total revenues for reportable segments	19,355	21,368
Non-reportable segment revenues	978	1,890
Other Revenues	0	0
Elimination of Intersegment sales	(554)	(1,183)

Total consolidated revenues	19,779	22,075
Total loss for reportable segments	(3,208)	(3,880)
Other profit or loss	(654)	(842)
Unallocated amounts:		
Corporate and other expenses	(1,317)	(1,307)
Special charge	0	0
Interest expense	(358)	(614)
Loss before income taxes	(5,537)	(6,643)

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, funding and cash requirements, supply issues, market acceptance of new products, the Odetics incubator strategy, the final outcome of the StorageTek litigation, and estimated Y2K costs 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. Odetics defines its business segments as Video Products, Telecom Products, and ITS. The Video Products segment includes our Broadcast division and the Gyyr Incorporated subsidiary. The Telecom Products segment includes our Communications division which manufactures timing and synchronization products, and the business of Mariner Networks, a wholly owned subsidiary. The ITS segment represents Odetics' 93% owned subsidiary Odetics ITS, Inc.

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 intelligent transportation systems projects ("contract revenues"). Contract revenues also include revenue from contracts with agencies of the United States Government and foreign entities for space recorders used for geographical information systems. Total net sales and contract revenues increased 11.6% to $22.1 million for the three month period ended June 30, 1999, compared to $19.7 million in the corresponding period of the prior fiscal year. Contract revenues increased 72.9% to $4.7 million for the three month period ended June 30, 1999 compared to $2.7 million in the corresponding period of the prior fiscal year. During the fiscal year ended March 31, 1999, we completed the acquisition of Meyer Mohaddes Associates Inc. and the assets of Viggen Corporation. The increase in contract revenues in the three month period ended June 30, 1999 reflects primarily the revenue contribution from these acquisitions.

Net sales increased 1.8% to $17.4 million for the three month period ended June 30, 1999, compared to $17.1 million in the corresponding period of the prior fiscal year. Net sales in the three month period ended June 30, 1999 compared to the corresponding period of the prior year reflects increased sales in the Broadcast division, our ITS business, and, to a lesser extent our Communications division, offset by a 16.5% decrease in sales of Gyyr products. Increased net sales of ITS in the three month period ended June 30, 1999 reflects increased units sales of its Vantage product, a video based traffic intersection control product. Increased sales in the Broadcast division reflect increased unit sales of its broadcast automation systems. Gyyr's net sales decreased primarily as a result of reduced unit sales of certain models of its time lapse video tape decks. The reduction in Gyyr's net sales principally reflects reduced purchases by certain of its OEM customers that sell to the banking industry.

Gross Profit. Gross profit as a percent of net sales increased to 29.7% for the three month period ended June 30, 1999, compared to 26.4% the corresponding period in the prior fiscal year. The increase in gross profit performance in the three months ended June 30, 1999 reflects improved gross profits experienced by the Broadcast division on a 68.6% increase in sales, and improved gross profits on Vantage product sales by the ITS business as a result of increased unit sales volume.

Gross profit as a percent of contract revenues decreased to 32.8% for the three months ended June 30, 1999 compared to 33.3% in the comparable period of the prior fiscal year. The decline in gross profits on contract revenues for the three month period ended June 30, 1999 primarily reflects an unfavorable mix of certain ITS contracts at lower gross profits in the first quarter of the current fiscal year.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 10.8% to $8.9 million (or 40.1% of total net sales and contract revenues) in the three months ended June 30, 1999 compared to $8.0 million (40.4% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The increase in selling, general and administrative expense in the three month period ended June 30, 1999 compared to the previous fiscal year period reflects increased sales and marketing expenses in the Broadcast, Gyyr, and ITS operations and increased charges for amortization of goodwill related to acquisitions. Net of goodwill amortization, general and administrative expenses decreased 7.0% in the quarter ended June 30, 1999 compared to the corresponding period of the prior fiscal year. The increase in sales and marketing expenses in ITS primarily reflects increased costs to support the roll-out of the Vantage product line, and acquired sales and marketing costs related to the acquisitions of Meyer Mohaddes Associates and the assets of Viggen Corporation noted above. The principal expense categories that increased include sales and marketing labor costs, advertising and promotion to support new products and markets, and costs related to international expansion.

Research and Development Expense. Research and development expense increased 49.0% to $3.9 million (or 17.6% of total net sales and contract revenues) in the three month period ended June 30, 1999 compared to $2.6 million (or 13.2% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The increase in research and development expense in the three month period ended June 30, 1999 compared to the previous fiscal year period principally reflects increased product development expenses in Broadcast, Mariner Networks, and ITS. For competitive reasons, Odetics closely guards the confidentiality of its specific development projects. The increase in product development expense relates primarily to development labor and related benefits, prototype material cost and consulting fees. The acquisitions of Meyer Mohaddes Associates and the assets of Viggen Corporation noted above, did not contribute to the increases in current year research and development expenses.

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

	Ended June 30	
	1998	1999
	(in thousands)	
Interest Expense	$553	$617
Interest Income	195	0
Interest Expense, Net	$358	$617

Interest expense primarily reflects interest on Odetics' line of credit borrowings and mortgage interest. Interest income in the three months ended June 30, 1998 was derived from a note receivable due to Odetics from ATL

Products Inc., its previously owned subsidiary. The note was repaid in full in July 1998. The increase in interest expense for the three month period ended June 30, 1999 compared to the prior fiscal year reflects an increase in the Odetics' average outstanding borrowings on its line of credit facility.

Income Taxes. No income tax benefit was provided on the net loss of Odetics for the three month period ended June 30, 1999, or in the corresponding period of the prior fiscal year because management has determined that Odetics cannot meet the criteria for recognition of the resulting deferred tax asset.

Liquidity and Capital Resources

Odetics incurred losses before interest, taxes, and depreciation and amortization of $4.6 million in the three months ended June 30, 1999. These losses, net of inventory and accounts receivable reductions, resulted in the use of $3.8 million of cash in operations in the three months ended June 30, 1999. Odetics spent $.5 million to fund capital expenditures during the quarter. Odetics financed its cash requirements principally with advances on its line of credit facility.

Odetics has a line of credit relationship with Transamerica Business Credit for a $17.0 million line of credit providing for borrowings at prime plus 2.0% (8.75% at June 30, 1999). At June 30, 1999, Odetics had outstanding borrowings of $16.6 million on the line of credit. Odetics' borrowings under this line of credit are secured by substantially all of its assets.

On July 7, 1999 Odetics announced that the United States Court of Appeals for the Federal Circuit ordered that a jury's verdict awarding it $70.6 million in damages in the case of Odetics, Inc. vs. Storage Technology Corporation be reinstated. Additional pre-judgement interest previously set by the district court at the rate of 7.5%, compounded quarterly, will be added. Odetics has not accrued any benefit related to the favorable outcome of the litigation in the three month period ended June 30, 1999. Odetics anticipates that during the three month period ended September 30, 1999 that it will accrue the benefit related to the litigation.

In July 1999, Odetics sold an option to Manchester Capital LLC for an aggregate purchase price of $5 million to purchase certain real property of Odetics consisting of approximately 14 acres located at 1515 South Manchester Avenue, Anaheim, California. The option exercise price is equal to the lessor of (a) the appraised fair market value of this real property as determined at November 1, 1999, or (b) at the option of Manchester Capital, the appraised fair market value of this real estate at November 1, 2000 or November 1, 2002. Odetics used the proceeds of the option sale for general working capital purposes.

The Odetics strategy of incubating companies for eventual spin-off or sale requires significant investments of cash. Odetics is exploring several alternatives for increasing its liquidity including the potential monetization of certain real property, the re-negotiation of its credit facility with Transamerica Business Credit, and the sale of additional equity and debt instruments. Odetics anticipates that it will be successful in its efforts to increase its liquidity, and that the related proceeds plus the proceeds from the successful outcome of the litigation with Storage Technology will enable it to execute its current operating plans and meet its obligations on a timely basis for at least the next twelve months.

Year 2000 Compliance

We are currently addressing problems associated with our computer systems as the year 2000 approaches. Many existing computer systems and applications, and other control devices use only two digits to identify a year in the date field, without considering the impact of the upcoming change in the century. Others do not correctly process "leap year" dates. As a result, such systems and applications could fail or create erroneous results unless corrected so that they can correctly process data related to the year 2000 and beyond. These problems are expected to increase in frequency and severity as the year 2000 approaches, and are commonly referred to as the year 2000 problem.

We have evaluated each of our products and believe that each is substantially year 2000 compliant. We have adopted the British Standards Institute standard for its statements of compliance regarding the year 2000. We believe that it is not possible to determine whether all of our customers' products into which our products are incorporated will be year 2000 compliant because we have little or no control over the design, production and testing of our customers' products.

The year 2000 problem could affect the systems, transaction processing computer applications and devices that we use to operate and monitor all major aspects of our business, including financial systems (such as general ledger, accounts payable, and payroll), customer services, infrastructure, master production scheduling, materials requirement planning, networks and telecommunications systems. We believe that we have identified substantially all of the major systems, software applications and related equipment used in connection with our internal operations that must be modified or upgraded in order to minimize the possibility of a material disruption to our business. We are currently in the process of modifying and upgrading all affected systems and expect to complete this process during the calendar year 1999. Because most of our software applications are recent versions of vendor supported, commercially available products, we have not incurred, and do not expect in the future to incur, significant costs to upgrade these applications as year 2000 compliant versions are released by the respective vendors. Systems such as telephone, networking, test equipment, and security systems at our facilities may also be affected by the year 2000 problem. We are currently assessing the potential effect of and costs of remediating the year 2000 problem on our facility systems. We estimate that our total cost of completing any required modifications, upgrades or replacements of these systems will not have a material adverse effect on our business, financial condition or result of operations.

We presently estimate that the total cost of addressing our year 2000 issues will be approximately $500,000. We based this estimate using numerous assumptions, including the assumption that we have already identified our most significant year 2000 issues and that the plans of our third party suppliers will be fulfilled in a timely manner without cost to us. We cannot be sure that these assumptions are accurate, and actual results could differ materially from those we anticipate.

We are currently developing contingency plans to address the year 2000 issues that may pose a significant risk to our on-going operations. These plans could include accelerated replacement of affected equipment of software, temporary use of back-up equipment of software or the implementation of manual procedures to compensate for system deficiencies. We cannot be certain that any contingency plans implemented by us would be adequate to meet our needs without materially impacting our operations, that any such plan would be successful or that our results of operations would not be materially and adversely affected by the delays and inefficiencies inherent in conducting operations in an alternative manner.

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 operating results have fluctuated and are likely to continue to fluctuate due to a number of factors, many of which are not within our control. Because of the factors listed below and other risks discussed in this report, our future operating results could be below the expectations of securities analysts and/or investors. If that happens, the trading price of our common stock could be adversely affected.

Factors that could affect our revenues include the following:

- our significant investment in research and development for our subsidiaries and divisions;
- our ability to develop, introduce, market and gain market acceptance of new products applications and product enhancements in a timely manner;
- the introduction of new products by competitors and technological change in our target markers;
- the availability of components used in the manufacture of our products;
- our ability to control costs;
- changes in our pricing policies and the pricing policies by our suppliers and competitors, as well as increased price competition in general;
- the long lead times associated with government contracts or required by vehicle manufacturers;
- our success in expanding and implementing our sales and marketing programs;
- our relatively small level of backlog at any given time;
- the mix of sales among our business units; and
- the Asian economic crisis and instability.

In addition, our sales in any quarter typically consist of a relatively small number of large customer orders. As a result, the timing of a small number of orders can 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.

WE HAVE EXPERIENCED SUBSTANTIAL LOSSES AND EXPECT FUTURE LOSSES. We incurred net losses of $6.6 million for the three months ended June 30, 1999 and net losses of $20.1 million for the year ended March 31, 1999. We may not be able to achieve profitability on a quarterly or annual basis in the future. Recent revenue growth also may not be sustainable and may not be indicative of future operating results. 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. In addition, in order to implement our incubator strategy successfully, we expect to continue to make significant investments in each of our business units. As a result, we may continue to experience losses which could cause the market price of our common stock to decline.

OUR INCUBATOR STRATEGY 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 each of our unit, sufficient to allow the unit to function as an independent public company. We expect to continue to invest heavily in the development 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 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.

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. 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.

We believe that we must continue to make substantial investments to support ongoing research and development in order to remain competitive. In particular, we will need to modify certain of our products to accommodate the anticipated deployment of digital television and the corresponding phase-out of analog transmissions. We will also have 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 recent shift towards providing more software solutions may create additional challenges for us, particularly in our Broadcast division. 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.

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, 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:

- Roswell, our automated facility management system for broadcast television stations;
- Bowser, our visual asset manager;
- Vortex, our high performance dome product;

- Digi Scan Pro, our advanced digital multiplexer;
- Vantage One, our single camera traffic detection system;
- Auto Vue, our lane departure warning system; and
- Dexter, our networking access device.

Market acceptance of our new products depends upon many factors, including our ability to resolve technical challenges in a timely and cost- effective manner, 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. 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 our 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 Auto Vue 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 Auto Vue.

WE MAY NEED ADDITIONAL CAPITAL IN THE FUTURE AND MAY NOT BE ABLE TO SECURE ADEQUATE FUNDS ON TERMS ACCEPTABLE TO US. We recently raised approximately $10.0 million in two private placements, approximately $8.0 million of which was raised in December 1998. Approximately $2.0 million was raised from the sale of Class A common stock to certain of our officers and directors in March 1999, following stockholder approval of this offering. We may need to raise additional capital in the near future, either through additional bank borrowings 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;
- increased sales and marketing expenses;
- 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.

WE HAVE SIGNIFICANT INTERNATIONAL SALES AND ARE SUBJECT TO RISKS ASSOCIATED WITH OPERATING IN INTERNATIONAL MARKETS. International product sales represented approximately 27% of our total net sales and contract revenues for fiscal year ended March 31, 1999 and approximately 34% for the fiscal year ended March 31, 1998. 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. Accordingly, we may be subject to many inherent risks related to international business operations, which could adversely affect our business, financial condition and results of operations. These risks include:

- unexpected changes in regulatory requirements, tariffs and other trade barriers;
- longer accounts receivable payment cycles;
- seasonal fluctuations resulting from lower sales that typically occur during the summer months in Europe and other parts of the world;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences;
- the burdens of compliance with a wide variety of foreign laws;
- reduced protection for intellectual property rights in some countries;
- political and economic instability.

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 or restrictions.

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

Our operating results have been adversely affected by the Asian economic crisis. Our telecommunications products are sold principally to LGIC of Korea. As a result of economic instability in Asia, particularly in Korea, our sales in this region declined over 70% in the past fiscal year and may continue to decline in the future. It is possible that these sales could be further impacted by the currency devaluations and related economic problems in this region.

WE NEED TO MANAGE GROWTH AND THE INTEGRATION OF OUR ACQUISITIONS. Over the past two years, we have significantly expanded our operations and made several substantial acquisitions of diverse businesses, including Intelligent Controls, Inc., International Media Integration Services, Ltd., Meyer Mohaddes Associates, Inc., Viggen Corporation and certain assets of the Transportation Systems business of Rockwell International. A key element of our business strategy involves expansion through the acquisition of complementary businesses, products and technologies. Our failure to manage growth and integrate our acquisitions successfully could be costly and could adversely affect our business, financial condition and results of operations.

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;
- 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.

To accommodate our recent growth and successfully integrate our acquisitions, 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. We may not be able to successfully integrate such systems, procedures and controls.

WE DEPEND ON GOVERNMENT CONTRACTS AND SUBCONTRACTS AND FACE ADDITIONAL RISKS RELATED TO FIXED PRICE CONTRACTS. Substantially all of the sales by our subsidiary, Odetics ITS, Inc., and a portion of our sales by our Communications division were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 16% of our net sales and contract revenues for the year ended March 31, 1999 and approximately 21% for the three months ended June 30, 1999. We expect 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;
- 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. 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. 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.

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.

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. 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, decreasing from $20.375 in October 1997 to $4.25 in October 1998. We may not be able to increase or sustain the current market price of our common stock in the future. 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;
- shortages announced by suppliers
- announcements of technological innovations or new products;
- acquisitions or businesses, products or technologies;
- changes in pending litigation;
- our ability to spin-off any business units;
- applications or product enhancements by us or by our competitors; and
- changes in financial estimates 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.

WE ARE CONTROLLED BY CERTAIN OF OUR OFFICERS AND DIRECTORS. As of June 30, 1999, our officers and directors beneficially owned approximately 29% 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 EFFECT 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 Odetics 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 Odetics. The mere existence of the stockholder rights plan often delays or makes a merger, tender offer or proxy contest more difficult.

YEAR 2000 COMPLIANCE. Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These systems and software products will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, computer systems and/or software used by many companies may need to be upgraded to comply with such Year 2000 requirements or risk system failure or miscalculations causing disruptions of normal business activities. Although our core products are designed to be Year 2000 compliant, it is difficult to ensure that our products contain all necessary date code changes. We are in the process of updating our existing information systems to become Year 2000 compliant. We have established an internal task force to evaluate our current status and state of readiness for the Year 2000. We believe the most significant impact of the Year 2000 issues will be the readiness of our suppliers, distributors, customers and lenders with whom we must interact. This evaluation is still at an early stage. We do not yet have any contingency plans to address our inability to remedy these issues and we may not have fully identified the Year 2000 impact. As such, we may not be able to update our systems and products or resolve the other Year 2000 issues without disrupting our business or without incurring significant expense. Our failure to address these issues on a timely basis or at all could result in lost revenues, increased operating costs, the loss of customers and other business interruptions, any of which could have a material adverse effect on our business, financial condition and results of operations.

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 us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business operations.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We brought an action against Storage Technology Corporation ("StorageTek") in the Eastern District Court of Virginia alleging that StorageTek had infringed our patent covering robotics tape cassette handling systems (United States Patent No. 4,779,151). StorageTek counterclaimed alleging that we infringed several of StorageTek's patents. Prior to trial, the court dismissed two of the infringement claims against us and the third claim was resolved between the parties. In January 1996, the jury determined that the patent claims were not infringed under the doctrine of equivalents based upon a claim construction defined by the court prior to the trial. The jury also concluded that our patent was not invalid. In June 1997, the United States Court of Appeals for the Federal Circuit vacated the lower court's claim construction and findings of noninfringement of our patent. The appellate court remanded the case for consideration of infringement under a proper claim construction. In August 1997, the appellate court denied a petition for rehearing requested by StorageTek. The case has been returned to the Federal District Court for retrial, and in March 1998, the jury awarded us damages in the amount of $70.6 million. In June 1998, the U.S. District Court for the Eastern District of Virginia granted an injunction against StorageTek enjoining StorageTek from making, selling or using any infringing devices, including the ACS4400, PowderHorn, Wolfcreek and Genesis automated tape library systems that include a pass through port. In June 1998, the U.S. District Court issued an order requesting the parties to brief the issues of whether StorageTek's motion for judgment as a matter of law should have been granted, and whether the injunction previously ordered by the court against StorageTek should be stayed pending appeal. After filing hearings, the trial court vacated its own injunction and granted StorageTek's motion for judgment as a matter of law to vacate the jury trial result and to find StorageTek not infringing. We have appealed these and other court rulings. The defendants also cross-appealed certain other court rulings. In July 1999 the U.S. Court of Appeals for the Federal Circuit reversed the trial court's judgement of non-infringement and reinstated the verdict of $70.6 million. StorageTek has filed a petition for rehearing by either the three judge panel that decided the case or en banc, i.e. by all of the active judges on the court. A decision from the U.S. Court of Appeals is pending this petition.

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

27. Financial Data Schedule

(b) 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: August 16, 1999

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	MAR-31-2000
<PERIOD-START>	APR-01-1999
<PERIOD-END>	JUN-30-1999
<CASH>	1,734
<SECURITIES>	0
<RECEIVABLES>	18,249
<ALLOWANCES>	0
<INVENTORY>	14,743
<CURRENT-ASSETS>	40,437
<PP&E>	52,531
<DEPRECIATION>	(30,529)
<TOTAL-ASSETS>	80,587
<CURRENT-LIABILITIES>	24,188
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	906
<OTHER-SE>	29,123
<TOTAL-LIABILITY-AND-EQUITY>	80,587
<SALES>	22,075
<TOTAL-REVENUES>	22,075
<CGS>	15,363
<TOTAL-COSTS>	15,363
<OTHER-EXPENSES>	12,738
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	617
<INCOME-PRETAX>	(6,643)
<INCOME-TAX>	0
<INCOME-CONTINUING>	(6,643)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(6,643)
<EPS-BASIC>	(.74)
<EPS-DILUTED>	(.74)