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, 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	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 10, 2000

Class A Common Stock - 8,100,450 shares.
Class B Common Stock - 1,058,641 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 share and per share amounts)
(unaudited)

	Three Months Ended December 31, 1998	Three Months Ended December 31, 1999	Nine Months Ended December 31, 1998	Nine Months Ended December 31, 1999
Net sales and contract revenues:				
Net sales	$16,210	$15,171	$52,550	$47,875
Contract revenues	3,957	4,436	9,519	13,979
Total net sales and contract revenues	20,167	19,607	62,069	61,854
Costs and expenses:				
Cost of sales	10,846	13,920	36,737	37,930
Cost of contract revenues	2,624	3,225	6,151	10,197
Gross Profit	6,697	2,462	19,181	13,727
Selling, general and administrative expense	7,360	9,214	23,071	26,566
Research and development expense	2,731	3,964	8,098	12,172
Total operating expenses	10,091	13,178	31,169	38,738
(Loss) from operations	(3,394)	(10,716)	(11,988)	(25,011)
Non-operating items				
Royalty income	0	38,437	0	38,437
Interest (expense), net	(445)	(454)	(1,279)	(1,821)
Income (loss) before taxes	(3,839)	27,267	(13,267)	11,605
Income tax expense	0	6,575	0	0
Net income (loss)	($3,839)	$20,692	($13,267)	$11,605
Earnings (loss) per share:				
Basic	($0.49)	$2.27	($1.77)	$1.28
Diluted	($0.49)	$2.18	($1.77)	$1.24
Weighted average number of shares outstanding				
Basic	7,890	9,128	7,493	9,076
Diluted	7,890	9,485	7,493	9,353

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 1999	December 31, 1999
		(Unaudited)
ASSETS		
Current Assets		
Cash	$ 787	$ 6,566
Trade accounts receivable, net	18,889	14,743
Costs and estimated earnings in excess of billings on uncompleted contracts	2,423	2,718
Inventories:		
Finished goods	1,101	1,226
Work in process	749	601
Materials and supplies	14,135	13,012
Total inventories	15,985	14,839
Prepaid expenses	1,295	1,126
Income taxes receivable	531	302
Deferred income taxes	376	372
Total current assets	40,286	40,666
Property, plant and equipment:		
Land	2,060	2,060
Buildings and improvements	18,674	18,781
Equipment, furniture and fixtures	31,303	33,110
	52,037	53,951
Less accumulated depreciation	(29,561)	(32,406)
Net property, plant and equipment	22,476	21,545
Capitalized software costs, net	7,667	6,767
Other Assets	10,926	13,905
Total Assets	$ 81,355	$ 82,883

See notes to consolidated financial statements.

ODETICS, INC.

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

	March 31, 1999	December 31, 1999 (Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	$ 10,454	$ 5,776
Accrued payroll and related	5,441	4,330
Accrued expenses	1,933	2,982
Contractual loss accrual	3,892	3,264
Billings in excess of costs and estimated earnings on uncompleted contracts	1,276	1,617
Current portion of long-term debt	2,074	2,154
Total current liabilities	25,070	20,123
Revolving line of credit	10,997	0
Long-term debt - less current portion	8,965	8,460
Other liabilities	0	5,000
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; 8,072,961 shares of Class A and 1,058,641 shares of Class B issued and outstanding at December 31, 1999 - $.10 par value	901	913
Paid-in capital	59,579	60,576
Treasury stock	(240)	(91)
Notes receivable from associates	(96)	(101)
Retained earnings	(23,913)	(12,308)
Accumulated other comprehensive income	92	311
Total stockholders' equity	36,323	49,300
Total liabilities and stockholders' equity	$ 81,355	$ 82,883

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED statements of CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended December 31,	
	1998	1999
Operating activities		
Net income (loss)	$ (13,267)	$ 11,605
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,627	4,624
Provision for losses on accounts receivable	228	0
Provision for deferred income taxes	174	233
Changes in operating assets and liabilities:		
Decrease in accounts receivable	2,308	4,146
Decrease in net costs and estimated earnings in excess of billings	50	46
Decrease in inventories	4,343	1,146
(Increase) Decrease in prepaids and other assets	1,041	(3,361)
(Decrease) in accounts payable and accrued expenses	(3,866)	(5,154)
Net cash provided by (used) in operating activities	(5,362)	13,285
Investing activities		
Purchases of property, plant and, equipment	(1,903)	(1,914)
Software development costs	(3,647)	(331)
Cash received on note receivable	10,019	0
Net cash provided by (used in) investing activities	4,469	(2,245)
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	32,997	22,456
Principal payments on line of credit, long-term debt and capital lease obligations	(40,210)	(28,875)
Proceeds from issuance of common stock	8,030	1,158
Net cash provided by (used in) financing activities	817	(5,261)
Increase (Decrease) in cash	(76)	5,779
Cash at beginning of year	1,131	787
Cash at December 31	$1,055	$ 6,566

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 December 31, 1999 and the consolidated results of operations and cash flows for the three and nine month periods ended December 31, 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 and nine month periods ended December 31, 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-KA 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 and nine month periods ended December 31, 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 did not provide income tax benefit for the losses incurred in fiscal 1998 due to the uncertainty as to the ultimate realization of the benefit at that time.

Note 3 - Long-Term Debt

	(in thousands)	
	March 31, 1999	December 31, 1999
Mortgage note	8,173	7,323
Contracts payable	2,866	3,291
	11,039	10,614
Less current portion	2,074	2,154
	$8,965	$8,460

NOTE 4 - Legal Proceedings

On October 11, 1999, Odetics settled its litigation with Storage Technology Corporation through an agreement for Storage Technology Corporation to pay license fees to Odetics of $100 million. Odetics realized a gain of approximately $38 million in the quarter ended December 31, 1999 as a result of the settlement, and expects to realize additional gains of $10 million in each of the quarters ended September 30, 2000 and 2001.

NOTE 5 - Comprehensive Income

The components of comprehensive income (loss) for the three months and nine months ended December 31, 1998 and 1999 are as follows in thousands:

	Three Months		Nine Months	
	1998	1999	1998	1999
Net income (loss)	$(3,839)	$20,692	$(13,267)	$11,605
Foreign currency translation adjustment	45	218	(33)	219
Comprehensive income (loss)	$(3,794)	$20,910	$(13,300)	$(11,824)

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, 1998 and 1999 follows in thousands:

	Intelligent Transportation	Video Products	Telecom Products	Total
Three months ended 12/31/98				
Revenue from external customers	$ 2,483	$ 9,961	$3,449	$17,893
Intersegment revenues	$ 0	$ 1,451	$ 37	$ 1,488
Segment income (loss)	$ (409)	$(1,170)	$ (705)	$(2,284)
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)

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

	3 months ended Dec. 31, 1998	3 months ended Dec. 31, 1999
Revenue		
Total revenues for reportable segments	$19,381	$19,174
Non-reportable segment revenues	2,274	2,572
Elimination of intersegment sales	(1,488)	(2,139)
Total consolidated revenues	20,167	19,607
Total loss for reportable segments	(2,284)	(8,429)
Other profit or loss	(315)	37,724
Unallocated amounts:		
Corporate and other expenses	(1,425)	(1,574)
Interest expense	(445)	(454)
Income (Loss) before income taxes	$(3,839)	$27,267

	Intelligent Transportation	Video Products	Telecom Products	Total
Nine months ended 12/31/98				
Revenue from external customers	$10,400	$34,777	$10,868	$56,045
Intersegment revenues	0	$ 3,939	$ 64	$ 4,003
Segment income (loss)	$ (2,541)	$(2,682)	$(1,682)	$(6,905)
Nine months ended 12/31/99				
Revenue from external customers	$17,448	$ 30,19	$ 7,630	$ 55,271
Intersegment revenues	0	$ 4,617	$ 66	$ 4,683
Segment (loss)	$(1,947)	$ (10,997)	$ (5,317)	$(18,261)

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

	9 months ended Dec. 31, 1998	9 months ended Dec. 31, 1999
Revenue		
Total revenues for reportable segments	$60,048	$59,954
Non-reportable segment revenues	6,024	6,583
Elimination of intersegment sales	(4,003)	(4,683)
Total consolidated revenues	62,069	61,854
Total loss for reportable segments	(6,905)	(18,261)
Other profit or loss	(1,189)	36,348
Unallocated amounts:		
Corporate and other expenses	(3,893)	(4,661)
Interest expense	(1,280)	(1,821)
Income (Loss) before income taxes	$(13,267)	$11,605

Note 7 - In December, 1999, the Company and Iteris, Inc. (Iteris), a newly formed Delaware corporation and a 93% owned subsidiary of Odetics, entered into a separation and distribution agreement, whereby the Company transferred the net assets and liabilities of its intelligent transportation division to Iteris. On December 17, Iteris filed a registration statement with the Securities and Exchange Commission for an initial public offering of its common stock. On January 5, 2000, Odetics filed an information statement on Form 10, announcing its intent to distribute all of its shares of Iteris to Odetics stockholders in a tax-free spin-off concurrent with the initial public offering of Iteris common stock. While the Registration Statement relating to these securities has been filed with the Securities Exchange Commission it has not yet become effective.

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. Inc. 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, 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 our 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 Iteris.

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 decreased 2.8% to $19.6 million for the three month period ended December 31 1999, compared to $20.2 million in the corresponding period of the prior fiscal year. Total net sales and contract revenues decreased 0.3% to $61.9 million for the nine month period ended December 31,1999 compared to $62.1 million in the corresponding period of the prior fiscal year. Contract revenues increased 12.1% to $4.4 million for the three month period ended December 31 1999 compared to $4.0 million in the corresponding period of the prior fiscal year. Contract revenues for the nine month period ended December 31, 1999 increased 46.9% to $14.0 million compared to $9.5 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 and nine month periods ended December 31, 1999 reflects primarily the revenue contribution from these acquisitions. The ITS base business of contract revenues (before acquisitions) increased 16.1% and 24.5% in the three and nine month periods respectively compared to the same periods in the prior fiscal year but was offset by a nearly corresponding decrease in revenue from contracts for space recorders. The Company has experienced declining contract revenues from space recorders due to soft market conditions for these products and because the Company has shifted away from this business in its' strategic focus.

Net sales decreased 6.4% to $15.2 million for the three month period ended December 31, 1999, compared to $16.2 million in the corresponding period of the prior fiscal year. Net sales decreased 8.9% to $47.9 million for the nine month period ended December 31, 1999 compared to $52.6 million in the corresponding period of the prior fiscal year. The decrease in net sales in the three month and nine month periods ended December 31, 1999 compared to the corresponding periods of the prior year reflects increased sales of Iteris products, offset by a decrease in sales of Video Products and, to a lesser extent, decreased sales of Telecom Products. The increase in Iteris net sales in the three month and nine month periods ended December 31, 1999 reflects increased unit sales of its Vantage product, a video based traffic intersection control product. The decrease in Video Products net sales reflects primarily reduced sales in our

Broadcast division, which was largely due to delays in delivery of our Roswell facility management system.

Gross Profit. Gross Profit as a percent of total net sales and contract revenues decreased to 12.6% for the three month period ended December 31, 1999, compared to 33.2% in the corresponding period of the prior fiscal year. For the nine month period ended December 31, 1999, gross profit as a percent of total net sales and contract revenues decreased to 22.2% compared to 30.9% in the corresponding period of the prior year. Gross profit as a percent of net sales decreased to 8.2% for the three month period ended December 31, 1999, compared to 33.1% in the corresponding period in the prior fiscal year. For the nine month period ended December 31, 1999 gross profit as a percent of net sales decreased to 20.8% compared to 30.1% for the corresponding period of the prior fiscal year. The decrease in gross profit performance in the three month and nine month periods ended December 31, 1999 generally reflects lower sales levels and higher unabsorbed manufacturing costs in Video Products and Telecom Products. Gross profit performance in the three and nine month periods ended December 31, 1999 was further impaired due to pricing concessions to certain customers and adjustments to inventory reserves and capitalized software related to certain discontinued products and product options in our Mariner Networks, Broadcast and Gyyr businesses. This was partially offset by improved gross profits on Vantage product sales by our ITS business as a result of increased unit sales volume.

Gross profit as a percent of contract revenues decreased to 27.3% for the three months ended December 31, 1999 compared to 33.7% in the comparable period of the prior fiscal year. For the nine month period ended December 31, 1999 gross profit as a percentage of contract revenues decreased to 27.1% from 35.4% in the comparable period of the prior fiscal year. The decline in overall gross profits on contract revenues for the three and nine month periods ended December 31, 1999 primarily reflects a revenue shift toward increased ITS contract revenue relative to total contract revenue. ITS contracts traditionally experience a lower overall gross profit percentage than our contract revenues from space recorders.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 25.2% to $9.2 million (or 47.0% of total net sales and contract revenues) in the three months ended December 31, 1999 compared to $7.4 million (or 36.5% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Selling, general and administrative expenses increased 15.1% to $26.6 million (or 42.9% of total net sales and contract revenues) for the nine months ended December 31, 1999 compared to $23.1 million (or 37.2% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Sales and marketing and general and administrative expenses in each of Odetics entities reflects the unique growth attributes and maturity of each operation; consistent with Odetics' incubator strategy. Broadcast, Iteris, and Mariner Networks each experienced increased sales and marketing expenses in the three and nine month periods ended December 31, 1999. The increase in sales and marketing expenses in Iteris primarily reflects increased costs to support the roll-out of the Vantage and AutoVue product lines, and acquired 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 45.1% to $4.0 million (or 20.2% of total net sales and contract revenues) in the three month period ended December 31, 1999 compared to $2.7 million (or 13.5% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. For the nine month period ended December 31, 1999 research and development expenses increased 50.3% to $12.2 million (or 19.7% of total net sales and contract revenues) compared to $8.1 million (or 13.0% 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 month periods ended December 31, 1999 compared to the previous fiscal year period principally reflects increased product development expenses in Broadcast, Mariner Networks, and Iteris. Broadcast is incurring development activities to support "Roswell," its software based control automation system for broadcast station operations. Mariner Networks is developing a number of ATM wide area access concentrators

including its new product "Dexter." Iteris continued to spend development resources in support of "AutoVue," its automotive lane guidance and warning system. For competitive reasons, we closely guard the confidentiality of specific development projects. The categories of increased product development expense include 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.

In December 1999, the Company's 93% owned subsidiary, Iteris, Inc. (Iteris) filed a registration statement with the Securities and Exchange Commission. The "Selected Consolidated Financial Data" and "Quarterly Data" as reported in "Management Discussion and Analysis of Financial Condition and Results of Operations" contained in the registration statement reported the following information regarding net sales and income (loss) before income taxes for Iteris, for the Quarter and Nine Month periods ended December 31, 1999 and 2000, respectively:

	Q398	Q399	YTD98	YTD99
Total Net Revenues	$ 4,483	$ 6,242	$10,400	$17,447

Loss before Income taxes	(1,224)	(1,755)	(4,655)	(5,291)

Odetics net sales and contract revenues, net of the results reported for Iteris, Inc., decreased $2.3 million, or 14.8% in the third quarter ended December 31, 1999 compared to the third quarter ended December 31, 1998. For the nine months ended December 31, 1999, net sales and contract revenues decreased $7.3 million, or 14.1% compared to the comparable nine month period of the previous year. As previously discussed, Odetics experienced decreased sales for both the quarter and nine month periods in its Video Products and Telecom Products segments. Odetics gross profits on sales, net of the results reported for Iteris, Inc., decreased in the third quarter and the nine months ended December 31, 1999 compared to the previous year's third quarter reflecting lower sales levels and higher unabsorbed manufacturing costs in the Video Products and Telecom Products segments. Odetics loss before income taxes, net of the results reported of Iteris, Inc. and the royalty income provided by the settlement with Storage Technology Corporation, increased $6.8 million, to $9.4 million in the third quarter ended December 31, 1999 compared to the third quarter ended December 31, 1998. For the nine months ended December 31, 1999, loss before income taxes increased $12.9 million, to $21.5 million compared to the nine months ended December 31, 1998. The increase in the loss before income taxes for Odetics, in the three and nine month periods ended December 31, 1999 principally reflects the effect of increased spending for Research and Development and increased Sales and Marketing expenses in its Video Products and Telecom Products segments.

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

	Three Months 1998	Three Months 1999	Nine Months 1998	Nine Months 1999
	Ended December 31			
	(in thousands)			
Interest Expense	$445	$454	$1,474	$1,821
Interest Income	$ 0	$ 0	$ 195	$ 0
Interest Expense, Net	$445	$454	$1,279	$1,821

Interest expense primarily reflects interest on Odetics' line of credit borrowings and mortgage interest. Interest income in the nine months ended December 31,1998 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 nine month period ended December 31, 1999 compared to the prior fiscal year reflects an increase in the Odetics' average outstanding borrowings on its line of credit facility.

Income Taxes.

On October 11, 1999, Odetics settled its litigation with Storage Technology Corporation through an agreement for Storage Technology Corporation to pay royalties to Odetics of $100 million. Odetics realized royalty income of approximately $38 million in the quarter ended December 31, 1999 as a result of the settlement, and expects to realize additional royalty income of $10 million in each of the quarters ended September 30, 2000 and 2001. As a result of the $38 million in royalty income, Odetics recorded tax expense of $6.6 million in the three and nine month periods ended December 31, 1999.

Liquidity and Capital Resources

For the nine months ended December 31, 1999, Odetics' earnings before interest, taxes, depreciation, and amortization were $18.0 million, and cash provided by operating activities was $13.3 million. Odetics used $1.9 million of cash for purchases of property, plant, and equipment in the nine months ended December 31, 1999.

On October 11, 1999, Odetics settled litigation with Storage Technology Corporation in exchange for license fees of $100 million, $80 million of which was paid the day of the settlement. The initial payment of $80 million resulted in cash proceeds to Odetics, net of expenses and fees, of approximately $38.4

million. Odetics used a portion of the proceeds to retire its outstanding borrowings on its line of credit with Transamerica Business Credit and to reduce its trade accounts payables, and has retained the balance of the funds to support general working capital requirements. Under the terms of the settlement agreement, Odetics will receive two additional payments of $10 million each in September of 2000 and 2001.

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%(10.5 at December 31, 1999). At December 31, 1999, Odetics had no borrowings outstanding on its line of credit. All of Odetics' future borrowings under this line of credit are secured by substantially all of its assets.

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. 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 has historically relied upon its line of credit facilities and on the sale of additional equity and debt instruments as potential sources of capital to enable it to finance its strategy. Odetics anticipates that its cash reserves, and future cash payments afforded by the settlement of its litigation with Storage Technology Corporation, in addition to its line of credit facility 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

In prior periods, the Company discussed the nature and progress of its plans to become Year 2000 ready. In late 1999, the Company completed its remediation and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in mission critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company expensed approximately $500,000 in connection with remediating its systems. The Company is not aware of any material problems resulting from Year 2000 issues, either with its products, its internal systems, or the products and services of third parties. The Company will continue to monitor its mission critical computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK FACTORS

At December 31, 1999, Odetics had approximately $6.5 million in cash and cash equivalents, approximately $6.3 of which were invested in short-term interest bearing securities. Our short-term interest bearing securities are subject to interest rate fluctuations and an increase in interest rates could adversely affect the market value of these securities. Changes in market value of short-term interest bearing securities will not be material due to the short-term nature of such securities. Odetics does not use derivative financial instruments in its investment portfolio to manage interest risks.

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 markets;

- 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; and

- the mix of sales among our business units;

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 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 losses from operations of $10.7 million for the three months ended December 31, 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 over the short term, 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;
- general economic and market conditions; and
- the current market for 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. 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 and received net proceeds of approximately $38 million in October 1999 in settlement of patent infringement litigation. 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 future, either through additional bank borrowings or other debt or equity financings. Our capital requirements will depend on many factors, including:

- Successful execution of our incubator strategy
- 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; and

- political and economic instability.

Many of our international sales are denominated 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. Over one half of the sales by our subsidiary, ITERIS 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 23% for the six months ended December 31, 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; 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. 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 is subject to wide fluctuations. 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 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 December 31, 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 acquirer and discourage the acquirer from pursuing Odetics. The mere existence of the stockholder rights plan often delays or makes a merger, tender offer or proxy contest more difficult.

In prior periods, the Company discussed the nature and progress of its plans to become Year 2000 ready. In late 1999, the Company completed its remediation and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in mission critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company expensed approximately $500,000 in connection with remediating its systems. The Company is not aware of any material problems resulting from Year 2000 issues, either with its products, its internal systems, or the products and services of third parties. The Company will continue to monitor its mission critical computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

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

On October 11, 1999, Odetics settled its litigation with Storage Technology Corporation through an agreement for Storage Technology Corporation to pay license fees to Odetics of $100 million. Odetics will realize a gain of approximately $38 million in the quarter ended December 31, 1999 as a result of the settlement, and expects to realize additional gains of $10 million in each of the quarters ended September 30, 2000 and 2001.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27. Financial Data Schedule

(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, 1999

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