FORM 10-Q

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

(Mark One)

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

For the quarterly period ended September 30, 1996

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission file number 0-10605

ODETICS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	95-2588496
(State or other jurisdiction or organization)	(I.R.S. Employer Identification No.)

1515 SOUTH MANCHESTER AVE., ANAHEIM, CA	92802
(Address of principal executive offices)	(Zip Code)

(714) 774-5000

(Registrant's telephone number, including area code)

(Former name, former addressed and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [_]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date

Number of shares of Common Stock outstanding as of November 8, 1996

Class A Common Stock - 5,202,152 shares.
Class B Common Stock - 1,136,531 shares.

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PART 1 FINANCIAL INFORMATION

ODETICS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
Net sales and contract revenues:				
Net sales	$ 21,681	$ 30,819	$ 40,848	$ 59,123
Contract revenues	2,804	2,774	5,074	5,273
	24,485	33,593	45,922	64,396

Costs and expenses:				
Cost of sales	14,450	20,199	26,635	38,405
Cost of contract revenues	1,509	1,405	2,868	2,677
Selling, general and administrative expenses	5,625	6,742	10,768	13,635
Research and development expenses	1,654	3,019	3,384	5,307
Interest expense	603	444	1,283	937
	23,841	31,809	44,938	60,961
Income before income taxes	644	1,784	984	3,435
Income taxes	245	696	374	1,340
Net income	$ 399	$ 1,088	$ 610	$ 2,095
Weighted average number of shares outstanding	6,058	6,580	6,011	6,515
Net income per share of common stock	$ 0.07	$ 0.17	$ 0.10	$ 0.32

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	MARCH 31, 1996	SEPT. 30, 1996 (UNAUDITED)
ASSETS		
Current Assets		
Cash	$ 1,142	$ 1,758
Trade accounts receivable, net	24,772	24,254
Costs and estimated earnings in excess of billings on uncompleted contracts	3,428	3,642
Inventories:		
Finished goods	3,717	3,135
Work in process	2,927	3,422
Materials and supplies	16,076	18,106
Total inventories	22,720	24,663
Prepaid expenses	1,122	1,018
Deferred income taxes	2,516	2,516
Total Current Assets	55,700	57,851
Property, plant and equipment		
Land	2,090	2,090
Buildings and improvements	17,553	17,613
Equipment, furniture and fixtures	24,914	26,379
	44,557	46,082
Less accumulated depreciation	(22,950)	(24,006)
Net property, plant and equipment	21,607	22,076
Other Assets	1,504	2,291
Total Assets	$ 78,811	$ 82,218

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	MARCH 31, 1996	SEPT. 30, 1996 (UNAUDITED)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	$ 11,519	$ 11,996
Accrued expenses	2,441	5,270
Accrued incentive programs	1,229	533
Accrued vacation	1,504	1,524
Income taxes payable	1,412	1,683
Billings in excess of costs and estimated earnings on uncompleted contracts	5,414	4,517
Current portion of long-term debt	1,791	1,646
Total current liabilities	25,310	27,169
Long-term debt - Less current portion	22,019	19,608
Deferred income taxes	497	497
Stockholders' equity		
Preferred stock, authorized 2,000,000 shares; none issued	--	--
Common stock, authorized 10,000,000 shares of class A and 2,600,000 shares of class B; 5,197,618 shares of class A and 1,139,431 shares of class B issued and outstanding at September 30, 1996 - $.10 par value	610	634
Paid-in capital	21,905	23,673
Foreign currency translation	(10)	62
Retained earnings	8,480	10,575
Total stockholders' equity	30,985	34,944
Total liabilities and stockholder's equity	$ 78,811	$ 82,218

See notes to consolidated financial statements.

ODETICS, INC.

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

SIX MONTHS ENDED
SEPTEMBER 30,

	1995	1996
OPERATING ACTIVITIES		
Net income	$ 610	$ 2,095
Adjustments to reconcile net income to net cash provided by (used) in operating activities:		
Depreciation and amortization	1,269	1,751
Provision for inventory reserves	304	587
Provision for losses on accounts receivable	66	73
Provision (Benefit) for deferred income taxes	11	271
Net proceeds from settlement of litigation	0	5,860
Gain on sale of assets	(30)	(186)
Foreign currency translation gain	5	72
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	(1,149)	(1,275)
(Increase) Decrease in costs and estimated earnings in excess of billings on uncompleted contracts	(718)	(214)
(Increase) Decrease in inventories and prepaid expenses	2,125	(3,962)
(Increase) in other assets	(552)	(1,031)
Increase (Decrease) in accounts payable and accrued expenses	(864)	43
Increase (Decrease) in billings in excess of costs and estimated earnings on uncompleted contracts	1,439	(897)
Net cash provided by (used) in operating activities	2,516	3,187
INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(1,214)	(1,811)
Proceeds from sale of equipment	47	7
Net cash used in investing activities	(1,167)	(1,804)
FINANCING ACTIVITIES		
Proceeds from revolving line of credit and long-term borrowings	18,219	25,600
Principal payments on line of credit, long-term debt and capital lease obligations	(19,824)	(28,159)
Proceeds from sale of common stock	59	1,792
Net cash provided by financing activities	(1,546)	(767)
Increase (Decrease) in cash	(197)	616
Cash at beginning of year	378	1,142
Cash at September 30	$ 181	$ 1,758

See notes to consolidated financial statements.

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

Note 1 - In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals necessary to present fairly the Company's consolidated financial position as of September 30, 1996 and the consolidated results of operations for the three-month and six-month periods ended September 30, 1995 and 1996 and its cash flows for the six-month periods ended September 30, 1995 and 1996. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations for the six-month period ended September 30, 1996 are not necessarily indicative of those to be expected for the entire year.

Note 2 - Income tax expense for the three-month and six-month periods ended September 30, 1995 and 1996 have been provided at the estimated annualized effective tax rates based on the estimated income tax liability or asset and change in deferred taxes for their respective fiscal years. Deferred taxes result primarily from temporary differences in the reporting of income for financial statement and income tax purposes. These differences relate principally to the use of accelerated cost recovery depreciation methods for tax purposes, capitalization of interest and taxes for tax purposes, capitalization of computer software costs for financial statement purposes, deferred compensation, other payroll accruals, and reserves for inventory and accounts receivable for financial statement purposes and general business tax credit and alternative minimum tax credit carryforwards for tax purposes.

Note 3 - Long-term Debt

	(in thousands) March 31, 1996	Sept. 30, 1996
Line of credit	$10,700	$ 9,100
Mortgage note	11,040	10,617
Contracts payable	2,070	1,537
	23,810	21,254
Less current portion	1,791	1,646
	$22,019	$19,608

Note 4 - In November 1994 and February 1995, The Company and E-Systems, Inc. (E-Systems), respectively filed legal actions related to E-Systems' cancellation of purchase orders for ATL Products' DataLibrary and DataTower products. In May 1996, the parties entered into a settlement agreement under which, among other things, E-Systems agreed to pay the Company $6,160,000, all claims asserted by the parties were released and the litigation dismissed. In addition, the parties agreed to an equitable disposition of disputed inventory and entered into a five year service agreement for Odetics to service units that had been sold to E-Systems at agreed upon prices. The Company does not expect to record any material gain or loss based on the terms of the settlement agreement.

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

Results of Operations

Net sales and contract revenues for Odetics, Inc. (the "Company") in the second quarter of fiscal year 1997 increased approximately $9,108,000 or 37.2% compared to the second quarter of the prior fiscal year. The components of this overall increase consisted of an increase in net sales (commercial products) of approximately $9,138,000, or 42.1% and a slight decrease in contract revenues (government products) of approximately $30,000. Net sales and contract revenues for the six-month period of fiscal year 1997 increased approximately $18,474,000, or 40.2%, compared to the same period in the prior fiscal year. For the six months ended September 30, 1996 net sales were up 44.7%, and contract revenues were up 3.9%.

The growth in net sales for the second quarter and six-month period was primarily due to an increase in sales in the Company's wholly owned subsidiary, ATL Products, Inc. ("ATL"). ATL's sales growth resulted from the introduction of new products and expansion of sales channels for its product offerings. The Company's Communication Division also showed strong growth in sales in its telecommunication products with increased sales of its synchronization products for cellular telephone systems and telecommunication interface products. The Company's Broadcast Division experienced a slight decrease in revenues for the second quarter and six-month period while Gyyr sales approximately were flat compared to the six months ended September 30, 1995.

Cost of sales and contract revenues as a percentage of net sales and contract revenues ("cost of sales percentage") decreased to 64.3% in the second quarter ended September 30, 1996 from 65.2% during the same period in the prior fiscal year. The cost of sales percentage for the six-month period of fiscal 1997 decreased to 63.8% from 64.2% for the same period in the prior fiscal year. This decrease primarily resulted from improved gross margins at ATL due to improved absorption of fixed manufacturing costs on higher sales volume and a sales mix that carried overall higher gross profit margins. The cost of sales percentage also declined due to a decrease in the cost of contract revenues as a result of a continued decline in the government manufacturing cost base.

Selling, general, and administrative (SG&A) expenses increased approximately $1,117,000 in the second quarter ended September 30, 1996, although as a percentage of net sales and contract revenues, SG&A declined to 20.1% compared to 23.0% in the comparable quarter in the prior fiscal year. SG&A expenses increased $2,867,000 in the six months ended September 30, 1996, although as a percentage of net sales and contract revenues, SG&A declined to 21.1% for the six-month period compared to 23.4% for the comparable period in the prior fiscal year. SG&A expenses primarily increased due to increased selling expenses to support the increased commercial product sales primarily in the areas of commissions, advertising, and labor and related benefits.

Research and development (R&D) expenses increased approximately $1,365,000 to 9.0% of net sales and contract revenues for the second quarter of fiscal year 1997 compared to 6.8% for the second quarter of fiscal year 1996. R&D expenses for the first six-months of fiscal 1997 increased approximately $1,923,000 to 8.3% of net sales and contract revenues compared to 7.4% for the comparable period in the prior fiscal year. The increased R&D expenses reflect prototype material,

consulting, and labor and related benefits accompanying increased new product development activities.

Interest expense declined approximately $159,000 and $346,000 for the second quarter and six-month periods of fiscal 1997, respectively, compared to the same periods for the prior fiscal year. These decreases were primarily due to overall lower average line of credit borrowings.

The effective income tax rate was 39% for the six-month period of fiscal 1997 compared to a 38% tax rate for the same period of the prior year. The increase in the effective tax rate projected for fiscal 1997 is due to a reduction in the effect of general business tax credits on total income tax expense.

Liquidity and Sources of Capital

The Company reported net income of $2,095,000 during the first six-months of fiscal 1997 and cash flow from operating activities of $3,187,000. Cash flow from operating activities included the receipt of net proceeds from the settlement of the litigation with E-Systems (see Note 4 of Notes to Consolidated Financial Statements), which was partially offset by an increase in inventories to support increased commercial product sales, especially in the Company's ATL Products subsidiary. The Company has a $17,000,000 bank line of credit providing for borrowings generally at or below the bank's prime rate. Borrowings are available for general working capital purposes, and at September 30, 1996, $7,900,000 was available for borrowing under the line. The Company anticipates that net cash flow from operating activities in conjunction with its bank credit arrangements will be sufficient to execute its operating plans and meet its obligations on a timely basis. The Company does not have any material commitments for capital expenditures as of September 30, 1996.

ODETICS, INC.

PART II OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

In connection with the Annual Meeting of Shareholders of Odetics, Inc. held on September 27, 1996, the following proxies were tabulated representing 4,803,897 shares of Class A Common Stock or 92% and 777,358 shares of Class B Common Stock or 69% of the total outstanding shares voted in the following manner:

	Total Vote for Each Director	Total Vote Withheld From Each Director
Class A		
Crandall Gudmundson	4,765,827	38,070
Leo Wexler	4,359,247	444,650
Class B		
Joel Slutzky	775,457	1,901

Jerry Muench	775,457	1,901
Ralph R. Mickelson	775,957	1,401
Stanley Molasky	775,957	1,401
Paul E. Wright	775,957	1,401
Kevin C. Daly	775,957	1,401

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K

There were no reports on Form 8-K filed for the three-month period ended September 30, 1996.

SIGNATURES

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

ODETICS, INC.
(Registrant)

By /s/ GREGORY A. MINER
Gregory A. Miner
Vice President, Chief Financial Officer

By /s/ GARY SMITH
Gary Smith
Vice President, Controller
(Principal Accounting Officer)

Date November 14, 1996

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