SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2003

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR**

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 (State or other jurisdiction of incorporation or organization)	**95-2588496** (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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes ☐ 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 12, 2003:

Class A Common Stock - 14,548,770 shares.
Class B Common Stock - 992,985 shares.

ODETICS, INC.
Quarterly Report on Form 10-Q
Table of Contents

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

PART I FINANCIAL INFORMATION

ODETICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share amounts)
(unaudited)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2003
Net sales and contract revenues:		
Net sales	$ 5,731	**$ 6,826**
Contract revenues	6,215	**5,775**
Total net sales and contract revenues	11,946	**12,601**
Costs and expenses:		
Cost of sales	2,687	**3,679**
Cost of contract revenues	4,099	**3,887**
Gross profit	5,160	**5,035**
Selling, general and administrative expense	3,741	**4,189**
Research and development expense	988	**1,143**
Total operating expenses	4,729	**5,332**
Operating income (loss)	431	**(297)**
Non-operating items		
Other (expense) income	640	**(101)**
Interest expense	(555)	**(32)**
Income (loss) before income taxes	516	**(430)**
Income taxes	—	**220**
Income (loss) from continuing operations before minority interest	516	**(650)**
Minority interest in earnings of subsidiary	1,028	**860**
Loss from continuing operations	(512)	**(1,510)**
Loss from discontinued operations	(788)	**(442)**
Net loss	$ (1,300)	**$ (1,952)**
Net loss per share:		
Basic and diluted		
Loss from continuing operations	$ (0.04)	**$ (0.10)**
Loss from discontinued operations	(0.06)	**(0.03)**
Loss per share	$ (0.10)	**$ (0.13)**
Shares used in calculating loss per share:		
Basic and diluted	12,587	**15,117**

See accompanying notes to consolidated financial statements

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2003 (Audited)	June 30, 2003 (Unaudited)
ASSETS:		
Current assets		
Cash	$ 437	**$ 207**
Trade accounts receivable, net	8,549	**9,845**
Costs and estimated earnings in excess of billings on uncompleted contracts	2,398	**2,525**
Inventories:		
Finished goods	211	**454**
Work in process	419	**352**
Materials and supplies	3,634	**3,406**
Total inventories	4,264	**4,212**
Prepaid expenses	435	**563**
Assets to be disposed of from discontinued operations	4,392	**595**
Total current assets	20,475	**17,947**
Restricted cash	2,516	**2,516**
Property, plant and equipment:		
Equipment, furniture and fixtures	7,299	**7,391**
Less accumulated depreciation	(5,336)	**(5,548)**
Net equipment, furniture and fixtures	1,963	**1,843**
Goodwill	9,807	**9,807**
Other assets	81	**55**
Total assets	$ 34,842	**$ 32,168**

See notes to consolidated financial statements

ODETICS, INC.

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

	March 31, 2003 (Audited)	June 30, 2003 (Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 5,862	**$ 5,733**
Accrued payroll and related	5,731	**4,709**
Accrued expenses	858	**1,469**
Billings in excess of costs and estimated earnings on uncompleted contracts	304	**372**
Revolving line of credit with related party	—	**400**
Advances under receivable purchase agreement	235	—
Liabilities of discontinued operations	4,139	**2,651**
Total current liabilities	17,129	**15,334**
Revolving line of credit	—	**1,735**
Deferred gain on sale of building	6,025	**5,721**
Revolving line of credit with related party	1,250	**—**
Other liabilities	15	**14**
Minority interest	14,711	**15,572**
Stockholders' equity (deficit)		
Preferred stock	—	**—**
Common stock	1,512	**1,512**
Paid-in capital	92,819	**92,986**
Treasury stock	(1)	**(1)**
Notes receivable from associates	(51)	**(51)**
Retained earnings	(98,468)	**(100,420)**
Accumulated other comprehensive income	(99)	**(234)**
Total stockholders' deficit	(4,288)	**(6,208)**
Total liabilities and stockholders' deficit	$ 34,842	**$ 32,168**

See notes to consolidated financial statements

ODETICS, INC.

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

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2003
Operating activities		
Net loss from continuing operations	$ (512)	**$ (1,510)**
Net loss from discontinued operations	(788)	**(442)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	395	**212**
Amortization of gain on sale-leaseback	(754)	**(304)**
Minority interest in earnings of subsidiary	1,028	**—**
Changes in operations assets and liabilities:		
(Increase) decrease in accounts receivable	(1,410)	**(1,296)**
(Increase) decrease in net costs and estimated earnings in excess of billings	11	**(59)**
(Increase) decrease in inventories	830	**52**
(Increase) decrease in prepaids and other assets	(114)	**(102)**
Change in net assets of discontinued operations	(810)	**2,309**
Increase (decrease) in accounts payable and accrued expenses	101	**(668)**
Net cash used in operating activities	(1,056)	**(947)**
Investing activities		
Purchases of equipment, furniture & fixtures	(114)	**(92)**
Proceeds from sale of building	18,951	**—**
Other	(131)	**(135)**
Net cash provided by (used in) investing activities	18,706	**(227)**
Financing activities		
Net proceeds/payments on line of credit, long-term debt and capital lease obligations	(17,056)	**777**
Proceeds from sale of Iteris common and preferred stock	201	**—**
Proceeds from issuance of common stock	141	**167**
Net cash provided by (used in) financing activities	(16,714)	**944**
Increase (decrease) in cash	936	**(230)**
Cash at beginning of period	408	**437**
Cash at end of period	$ 1,344	**$ 207**

See notes to consolidated financial statements

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation and Operations

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the consolidated financial position of Odetics, Inc. as of June 30, 2003 and the consolidated results of operations and cash flows for the three months ended June 30, 2002 and 2003. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the Unites States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations for the three months ended June 30, 2003 are not necessarily indicative of those to be expected for the entire year. The accompanying consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended March 31, 2003, as amended, which was filed with the Securities and Exchange Commission.

During the three months ended June 30, 2003, we used $947,000 of cash to fund our operations. Operating cash flow reflects our aggregate net loss from continuing and discontinued operations of $2.0 million increased for amortization of non-cash deferred gain of $304,000 related to the sale of our real estate assets, offset by non-cash charges of $860,000 million related to the minority interest in our Iteris subsidiary and $212,000 for depreciation and amortization. We also used an aggregate $2.0 million in cash to fund increases in accounts receivable and reductions in accounts payable. We received approximately $2.0 million related to the sale of Zyfer Inc. As of June 30, 2003, we had cash and cash equivalents of $207,000.

In May 2003, we completed the sale of substantially all of the assets of our wholly-owned subsidiary, Zyfer Inc., for $2.3 million in cash plus the assumption of liabilities. The cash proceeds were used to fund working capital requirements and pay short-term liabilities. The asset purchase agreement provides for future incentive payments of up to $1.0 million in each of the next two twelve-month periods, based on the revenues generated from the sale of Zyfer's products or the license of its technologies.

On July 29, 2003, we completed a private placement of 3,666,667 shares of our Class A common stock to an institutional investor group for $2.2 million in cash. In connection with this offering, we also issued warrants to the investors to purchase up to another 366,667 shares at an exercise price of $1.50 per share. The warrants are exercisable at any time by the investors and expire in July 2006. The proceeds from this offering were used to fund general working capital requirements.

In July 2003, we concluded a restructuring of our facility lease obligations for our principal operating facilities located in Anaheim, California. Under the revised terms, Odetics and its Iteris subsidiary entered into two separate leases for space totaling 80,000 square feet located at our current Anaheim based location. Odetics has been relieved of a continuing lease obligation on approximately 257,000 square feet. In consideration for the restructured agreement, Odetics paid approximately $2.5 million in restricted cash that had been previously pledged as collateral on the lease, in addition to issuing the lessor 425,000 shares of Odetics Class A Common Stock and a note payable for $814,000

We have lease commitments for facilities in various locations throughout the United States. The annual commitment under these noncancelable operating leases including the leaseback of the Anaheim facilities at June 30, 2003 is as follows:

Fiscal Year		(in thousands)
2004	$	1,671
2005	$	2,113
2006	$	1,928
2007	$	1,837
2008	$	1,826
Thereafter	$	7,608

As of July 25, 2003, after giving effect to reflecting the restructuring of our facility lease obligations for our principal operating facilities, the annual commitment under our noncancelable leases, is as follows:

Fiscal Year		(in thousands)
2004	$	782
2005	$	1,062
2006	$	943
2007	$	852
2008	$	280
Thereafter	$	—

We expect that our operations will continue to use net cash at least through the end of calendar 2003. We also expect to have an ongoing need to raise cash by securing additional debt or equity financing, or by divesting certain assets to fund our operations until we return to profitability and positive operating cash flows. However, we cannot be certain that we will be able to secure additional debt or equity financing or divest of certain assets on terms acceptable to us, on a timely basis, or at all. Our future cash requirements will be highly dependent upon our ability to control expenses, as well as the successful execution of the revenue plans by each of our business units. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

These conditions, together with our recurring operating losses, raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or liabilities that may result from the outcome of this uncertainty.

Note 2 - **Income Taxes**

Income taxes for the three months ended June 30, 2002 and 2003 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. Odetics owns less than 80% of its operating subsidiary, Iteris Inc. and accordingly does not file a consolidated federal tax return. Income tax expense of $220,000 in the three months ended June 30, 2003 reflects the estimated tax provision of Iteris based upon its actual first quarter taxable income.

Note 3 - Comprehensive (Loss)

The components of comprehensive (loss) for the three months ended June 30, 2002 and 2003 are as follows (in thousands):

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2003
Net loss	$ (1,300)	$ (1,952)
Foreign currency translation adjustment	(131)	(135)
Comprehensive loss	$ (1,431)	$ (2,087)

Note 4 - Business Segment Information

Odetics operates in three reportable segments: intelligent transportation systems ("ITS"), video products, which include products for the television broadcast and video security markets, and telecom products. Selected financial information for our reportable segments for the three months ended June 30, 2002 and 2003 are as follows (in thousands):

	Intelligent Transportation Systems	Video Products	Telecom Products	Total
Three Months Ended June 30, 2002				
Revenue from external customers	$ 10,260	$ 937	$ 749	$ 11,946
Segment income (loss)	927	(141)	437	1,223
Three Months Ended June 30, 2003				
Revenue from external customers	11,531	1,070	—	12,601
Segment income (loss)	493	(62)	—	431

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

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2003
Total profit for reportable segments	1,223	431
Unallocated amounts:		
Corporate and other expenses	(792)	(728)
Other (expense) income	640	(101)
Interest expense	(555)	(32)
Income (loss) before income taxes	$ 516	$ (430)

Note 5 – **Recent Accounting Pronouncements**

In 2003, the Company adopted Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Application of this statement did not have a significant effect on the Company's consolidated results of operations or financial position.

In July 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (Statement 146). Statement 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* (EITF 94-3). Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The Company adopted Statement 146 on January 1, 2003.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), effective prospectively for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for periods ending after December 15, 2002. Under FIN 45, a guarantor is required to recognize, at the inception of certain guarantees, a fair value liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. All guarantees subject to the disclosure provisions of FIN 45, such as product warranties, have been disclosed in the accompanying notes to the consolidated financial statements. The Company does not have any other outstanding guarantees at March 31, 2003 required to be disclosed or recorded as obligations upon adoption of FIN 45.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). This Interpretation changes the method of determining whether certain entities should be included in the Company's Consolidated Financial Statements. An entity is subject to FIN 46 and is called a variable interest entity (VIE) if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. All other entities are evaluated for consolidation under SFAS No. 94, Consolidation of All Majority-Owned Subsidiaries. The provisions of FIN 46 are to be applied immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. For VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003, FIN 46 applies in the first fiscal period beginning after June 15, 2003. The Company has not yet determined the impact, if any, that the adoption of FIN 46 will have on the Company's financial position, results of operations or cash flows. There were no VIE's created after January 31, 2003.

Note 6 - **Net Loss Per Share**

The following table sets forth the computation of net loss per share:

(In thousands)	Three Months Ended June 30, 2003	2002
Numerator for basic and diluted net loss per share:		
Loss from continuing operations	$ (512)	$ (1,510)
Loss from discontinued operations	(788)	(442)
Net loss	$ (1,300)	$ (1,952)
Denominator for basic and diluted net loss per share:		
Weighted average shares outstanding	12,587	15,117
Basic and diluted loss per share:		
Loss from continuing operations	$ (0.04)	$ (0.10)
Loss from discontinued operations	(0.06)	(0.03)
Net loss per share	$ (0.10)	$ (0.13)

Note 7 - Stock Based Compensation

The Company applies the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related Interpretations in accounting for its stock-based compensation. Accordingly, the Company does not recognize any compensation expense for employee stock options with exercise prices equal to or greater than the Company's stock price on the date of grant. Pro forma amounts adjusted for the effect of recording compensation cost for the Company's stock option plan determined based upon the fair value at the grant date for awards under the plan consistent with the methodology prescribed under Statement of Financial Accounting Standards Nos. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure,* and No. 123, *Accounting for Stock-Based Compensation,* are presented below:

(In thousands)	Three Months Ended June 30, 2003	2002
Net loss – reported	$ (1,300)	$ (1,952)
Employee compensation expense under fair value method	(159)	(159)
Net loss – pro forma	$ (1,459)	$ (2,111)
Basic and diluted net loss per share – reported	$ (0.10)	$ (0.13)
Basic and diluted net loss per share – pro forma	$ (0.12)	$ (0.14)
Shares used in computation of basic and diluted net loss per share	12,587	15,117

Note 8 - Discontinued Operations

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144).

The Statement supersedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, however, it retains the fundamental provisions of that statement related to the recognition and measurement of the impairment of long-lived assets to be "held and used." SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operation's – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* (APB 30), for the disposal of a segment of a business. Under SFAS 144, a component of a business that is held for sale is reported in discontinued operations if (i) the operations and cash flows will be, or have been, eliminated from the ongoing operations of the company and, (ii) the company will not have any significant continuing involvement in such operations. In the quarter ended September 30, 2001, the Company adopted the provisions of SFAS 144 effective April 1, 2001.

In March 2003, the Company decided to divest of its Zyfer, Inc. subsidiary (Zyfer). On May 9, 2003, the Company completed the sale of substantially all of the net assets of Zyfer, with a net book value of approximately $2.3 million, for $2.3 million. The Company may also receive incentive payments of up to $2 million should Zyfer meet certain revenue targets in the twelve month periods ended April 30, 2004 and 2005. The initial purchase price is subject to adjustment within 45 days of the closing in the event that the assets purchased less the liabilities assumed by the buyer is less than $2.2 million. In connection with the Zyfer sale, the Company accrued $1.1 million for certain future lease obligations of Zyfer that were not transferred to the buyer.

In March 2003, the Company ceased the development and sale of products in its Broadcast, Inc. subsidiary (Broadcast) and reduced the headcount in Broadcast to only support the existing customer contracts for service and support through their expiration dates. The aggregate losses recognized to write down the assets of Broadcast to their fair value less cost to sell were approximately $3.4 million. In addition, the Company accrued $0.4 million for employees terminated in March 2003 and other direct costs to wind down the Broadcast operation.

The asset write-downs and accrued costs are included in the loss from discontinued operations in the year ending March 31, 2003. The results of operations of Zyfer and Broadcast for all periods presented have been reclassified and presented as discontinued operations in the accompanying consolidated statement of operations. Interest expense was not reclassified to discontinued operations because the discontinuances did not eliminate any of the Company's debt.

The net sales and loss from discontinued operations are as follows:

	Year ended June 30,	
Net Sales	**2002**	**2003**
Zyfer	$ 1,631	$ 317
Broadcast	1,735	235
Total net sales	$ 3,366	$ 552
Loss from discontinued operations:		
Zyfer	$ (477)	$ (421)
Broadcast	(311)	(21)
Total loss from discontinued operations	$ (788)	$ (442)

The assets and liabilities of the discontinued operations consisted of the following:

	March 31, 2003	June 2003
Accounts receivable	$ 1,632	$ 362
Inventories	1,892	21
Prepaid expenses & other assets	125	25
Property, plant and equipment, net	743	187
Total assets of discontinued operations	$ 4,392	595
Accounts payable	$ 2,250	$ 1,193
Accrued expenses	1,889	1,458
Total liabilities of discontinued operations	$ 4,139	$ 2,651

Note 9 - Warranty

Unless otherwise stated, the Company provides a one-year warranty from the original invoice date on all product material and workmanship. Products sold to certain original equipment manufacturer customers sometimes carry longer warranties. Defective products will be either repaired or replaced, generally at the Company's option, upon meeting certain criteria. The Company accrues a provision for the estimated costs that may be incurred for product warranties relating to a product as a component of cost of sales at the time revenue for that product is recognized.

The activity in accrued warranty obligations is as follows:

	June 30,	
	2002	**2003**
	(in thousands)	
Balance at beginning of period	$ 274	$ 281
Additions charged to cost of sales	(42)	67
Warranty claims	(182)	(38)
Balance at end of period	$ 214	$ 310

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

Cautionary Statement

This report including the following discussion and analysis contains forward-looking statements that are based on our current expectations, estimates and projections about our business and our industry, and reflect management's beliefs and certain assumptions made by us based upon information available to us as of the date of this report. When used in this report and the information incorporated herein by reference, the words "expect(s)," "feel(s)," "believe(s)," "should," "will," "may," "anticipate(s)," "estimates" and similar expressions or variations of these words are intended to identify forward-looking statements. These forward-looking statements include but are not limited to statements regarding our anticipated revenue, expenses, capital needs, competition, backlog and manufacturing capabilities and the status of our facilities and product development. These statements are not guarantees of future performance and are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. You should not place undue reliance on these forward-looking statements that speak only as of the date hereof. We undertake 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. We encourage you to carefully review and consider the various disclosures made by us which describe certain factors which could affect our business, ***including in "Risk Factors" set forth at the end of Part II, Item 7 of this report and in*** "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" *below before deciding to invest in our company or to maintain or increase your investment. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.*

General

During the fiscal year ended March 31, 2003 ("fiscal 2003"), we operated in three business segments consisting of ITS, video products and telecom products. The ITS segment consisted of our majority-owned subsidiary, Iteris, Inc., which designs, develops, markets and implements video sensor systems and transportation management and traveler information systems for the ITS industry. The video products segment consisted of our wholly-owned subsidiaries, MAXxess Systems, Inc. (previously known as Gyyr Incorporated) and Broadcast, Inc. Our telecom segment consisted of our wholly-owned subsidiary, Zyfer, Inc. All references to our subsidiaries in this report include the prior business and results of operations of such subsidiaries as our business units prior to their incorporation.

In March 2003, we decided to discontinue the operations of Broadcast.

In May 2003, we sold substantially all of the assets of Zyfer for a purchase price of $2.3 million in cash, plus assumption of liabilities, plus future incentive payments of up to $1 million in each of the years ended April 30, 2004 and 2005. The amount of these future incentive payments will be based on the revenues generated by the sale of Zyfer's products or the license of its technologies.

Accordingly, at June 30, 2003, we operate in two business segments, ITS and Security Products, consisting of Iteris, Inc. and MAXxess Systems, Inc., respectively.

Our financial statements for the three months ended June 30, 2002 and 2003 have been restated to reflect the discontinuation of the operations of Broadcast, and Zyfer and, accordingly, only reflect the operations of Iteris and MAXxess.

We generated operating losses of $297,000 in the three months ended June 30, 2003, $203,000 in fiscal 2003 and $2.8 million in fiscal 2002. While we have substantially reduced our operating losses in recent periods, we have experienced negative cash flows from operations in the amount of $947,000 in the three months ended June 30, 2003, $4.8 million in fiscal 2003 and $18.2 million in fiscal 2002, and had a stockholders' deficit of $6.2 million at June 30, 2003. We expect that our operations will continue to use net cash at least through the end of calendar 2003. We also expect to have an ongoing need to raise cash by securing additional debt or equity financing, or by divesting certain assets to fund our operations until we return to profitability and positive operating cash flows. We cannot assure you that any additional funding will be available on a timely basis, on acceptable terms, or at all. These conditions, together with our recurring losses, cash requirements and stockholders' deficiency, raise substantial doubt about our ability to continue as a going concern.

Critical Accounting Policies And Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited consolidated financial statements included herein, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate these estimates and assumptions, including those related to the collectibility of accounts receivables, the valuation of inventories, the recoverability of long-lived assets, including goodwill, and reserves for restructuring and related activities. We base these estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions by their nature involve risks and uncertainties, and may prove to be inaccurate. In the event that any of our estimates or assumptions are inaccurate in any material respect, it could have a material adverse effect on our reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We record product revenues and related cost of sales upon transfer of title, which is generally upon shipment or, if required, upon acceptance by the customer, provided that we believe collectibility of the net sales amount is probable. Accordingly, at the date revenue is recognized, the significant uncertainties concerning the sale have been resolved. Unless otherwise stated in our product literature, we provide a one to two year warranty on all product material and workmanship, and establish reserves for potential warranty returns as products are shipped. Defective products are either repaired or replaced, at our option, upon meeting certain criteria.

Contract revenue is derived primarily from long-term contracts with governmental agencies. Contract revenue includes costs incurred plus a portion of estimated fees or profits determined on the percentage of completion method of accounting based on the relationship of costs incurred to total estimated costs. We record a charge to earnings for any anticipated losses on contracts in the period in which such losses are identified. Changes in job performance and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to cost and revenue and are recognized in the period in which the revisions are determined. We include profit incentives in revenue in the period in which their realization is reasonably assured.

We record revenues from follow-on service and support, for which we charge separately, in the period in which such services are performed.

Accounts Receivable. We estimate the collectibility of customer receivables on an ongoing basis by periodically reviewing invoices outstanding over a certain period of time. We have recorded reserves for receivables deemed to be at risk for collection as well as a general reserve based on our historical collections experience. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current credit-worthiness of each customer. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make required payments, additional allowances may be required which could adversely affect our operating results.

Inventory. We state our inventories at the lower of cost or market and provide reserves for potentially excess and obsolete inventory. In assessing the ultimate realization of inventories, we make judgments as to future demand requirements and compare that with the current or committed inventory levels. Reserves are established for inventory levels that exceed future demand. It is possible that reserves over and above those already established may be required in the future if market conditions for our products should deteriorate.

Impairment of Assets and Restructuring. During fiscal 2003, we recorded reserves and asset write-downs in connection with the sale of substantially all of the assets of Zyfer and the discontinuation of Broadcast. These include estimates pertaining to the fair value of assets and facility closure costs. Although we do not anticipate significant changes, the actual assets values and closure costs may differ from the amounts estimated.

Results of Operations

The following table sets forth certain income statement data as a percentage of total net sales and contract revenues for the periods indicated and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations:

	Three Months Ended June 30,	
	2002	**2003**
Net sales	48.0%	54.2%
Contract revenues	52.0	45.8
Total net sales and contract revenues	100.0%	100.0%
Gross profit—net sales	53.1	46.1
Gross profit—contract revenues	34.0	32.7
Selling, general and administrative expense	31.3	33.2
Research and development expense	8.3	9.1
Operating income (loss)	3.6	(2.4)
Non-operating income (expense):		
Other (expense) income	5.4	(0.8)
Interest expense, net	(4.6)	(0.3)
Income taxes (benefit)	—	1.7
Minority interest in earnings of subsidiary	8.6	6.8
Loss from discontinued operations, net of income taxes	(6.6)	(3.5)
Net loss	(10.9)%	(15.5)%

Net Sales and Contract Revenues. Net sales and contract revenues consist principally of (i) sales of products and services to commercial and municipal agencies ("net sales") and (ii) revenues derived from contracts with state, county and municipal agencies for ITS projects ("contract revenues"). Total net sales and contract revenues increased 5.5% to $12.6 million for the three months ended June 30, 2003, compared to $11.9 million in the corresponding period of the prior fiscal year. Sales of Iteris' transportation management systems and video sensor systems represented 91.5% of our total net sales and contract revenues for the quarter ended June 30, 2003, 86.9% in the fiscal year ended March 31, 2003 ("fiscal 2003") and 71.5% in the fiscal year ended March 31, 2002 ("fiscal 2002"). We anticipate that Iteris will continue to represent a majority of our total net sales and contract revenues for the fiscal year ending June 30, 2004. Net sales increased 19.1% to $6.8 million for the three months ended June 30, 2003, compared to $5.7 million in the corresponding period of the prior fiscal year. The increase in net sales was primarily due to an increase in unit sales of Vantage video detection products in North America, which increased 18.6% from the corresponding quarter of the prior fiscal year. The increase in net sales also includes an increase in unit sales of our Autovue products, largely to truck OEMs.

Contract revenues decreased 7.1% to $5.8 million for the three months ended June 30, 2003, compared to $6.2 million in the corresponding period of the prior fiscal year. Contract revenues in the three months ended June 30, 2002 included $628,000 in revenue contribution from our telecom segment related to maintenance and repair contracts for data recorders used in space flight. The underlying program to which this revenue related expired in March 2003, and there was no revenue contribution from this program in the three months ended June 30, 2003. Contract revenues derived from the Iteris systems consulting activities increased 3.4% in the three months ended June 30, 2003 compared to the corresponding period of the prior fiscal year, primarily due to a general increase in contract volume in the current fiscal year.

Gross Profit. Gross profit as a percentage of net sales and contract revenues decreased to 40.0% for the three months ended June 30, 2003 compared to 43.2% in the corresponding period in the prior fiscal year. Gross profit as a percentage of net sales decreased to 46.1% for the three months ended June 30, 2003 compared to 53.1% in the corresponding period in the prior fiscal year. The decrease largely reflects the impact of pricing in the market for Vantage products in addition to lower revenue derived from billable non-recurring engineering services.

Gross profit as a percentage of contract revenues decreased to 32.7% for the three months ended June 30, 2003 compared to 34.0% in the corresponding period of the prior fiscal year. The decrease reflects end of contract favorable gross profit realized on the maintenance and repair contracts for data recorders used in space flight in the period ended June 30, 2002. The underlying mix of contracts at any given time will impact quarterly gross profit performance on contract revenues. We recognize contract revenues and the related gross profit using percentage of completion contract accounting.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 12.0% to $4.2 million (or 33.2% of total net sales and contract revenues) in the three months ended June 30, 2003 compared to $3.7 million (or 31.3% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The increase primarily reflects increased spending to support sales and marketing infrastructure and programs in our Vantage products, Systems and AutoVue products and services offerings. The increase in sales and marketing expenses was partially offset by decreased spending in general and administrative expenses related to overall cost reduction efforts in the three months ended June 30, 2003 compared to the corresponding period of the prior fiscal year.

Research and Development Expense. Research and development expense increased 15.7% to $1.1 million (or 9.1% of total net sales and contract revenues) in the three months ended June 30, 2003 compared to $988,000 (or 8.3% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The increase was primarily due to increases in Vantage and Systems product development activities, which was partially offset by decreases in research and development expense in AutoVue. Vantage product development activities primarily relate to product line extensions to support new communications platforms and to accommodate new camera designs. These increases were primarily in the areas of payroll and related benefits, prototype material cost and consulting fees. For competitive reasons, we closely guard the confidentiality of our specific development projects.

Other Income. Other income during the three months ended June 30, 2002 reflects gain recognized on the sale of our Anaheim facilities.

Interest Expense. As a result of sale and leaseback of our Anaheim, California facilities, we repaid $16.4 million of outstanding indebtedness under a promissory note in May 2002. The decrease in interest expense to $32,000 in the three months ended June 30, 2003 compared to $555,000 in the comparable period of the preceding fiscal year reflects lower average outstanding borrowings.

Income Taxes. Odetics owns less than 80% of its operating subsidiary, Iteris Inc. and accordingly does not file a consolidated federal tax return. Income tax expense of $220,000 in the three months ended June 30, 2003 reflects the estimated tax provision of Iteris based upon its actual first quarter taxable income. On a consolidated basis, we have not provided any income tax benefit for the losses incurred in the three months ended June 30, 2003 due to the uncertainty as to the ultimate realization of the related benefit.

Liquidity and Capital Resources

During the three months ended June 30, 2003 we used $947,000 of cash to fund our operations. Operating cash flow reflects our aggregate net loss from continuing and discontinued operations of $2.0 million increased for amortization of non-cash deferred gain of $304,000 related to the sale of our real estate assets, which was offset by non-cash charges of $860,000 million related to the minority interest in our Iteris subsidiary and $212,000 for depreciation and amortization. We also used an aggregate $2.0 million in cash to fund increases in accounts receivable and reductions in accounts payable. As of June 30, 2003, we had cash and cash equivalents of $207,000.

In May 2003, we completed the sale of substantially all of the assets of our wholly-owned subsidiary, Zyfer Inc. for $2.3 million in cash plus the assumption of liabilities. The cash proceeds were used to fund working capital requirements and pay short-term liabilities. The asset purchase agreement provides for future incentive payments to us of up to $1.0 million in each of the next two twelve-month periods, based on revenues generated from the sale of Zyfer's products or the license of its technologies.

In July 2003, we concluded a restructuring of our facility lease obligations for our principal operating facilities located in Anaheim, California. Under the revised terms, Odetics and its Iteris subsidiary entered into two separate leases for space totaling 80,000 square feet located at our current Anaheim based location. Odetics has been relieved of a continuing lease obligation on approximately 257,000 square feet. In consideration for the restructured agreement, Odetics paid approximately $2.5 million in cash that had been previously pledged as collateral on the lease, in addition to issuing to the lessor 425,000 shares of Odetics Class A Common Stock and a note payable for $814,000

On July 29, 2003, we completed a private placement of 3,666,667 of our Class A common stock to an institutional investor group for $2.2 million in cash. In connection with this offering, we also issued three year warrants to the investor to purchase up to another 366,667 shares at an exercise price of $1.50 per share. The warrants are exercisable at any time by the investors. The proceeds from the transaction were used to fund general working capital requirements.

Our contractual obligations are as follows at June 30, 2003:

	Payments Due by Period (in thousands)				
	Total	1 year or less	2-3 years	4-5 years	After 5 years
Lines of credit	$ 2,135	$ 400	$ 1,735	$ —	$ —
Operating leases	16,867	2,133	3,923	3,661	7,150
Total	$ 19,002	$ 2,533	$ 5,658	$ 3,661	$ 7,150

As a result of the restructuring of our facility lease in July 2003, our revised future obligations under operating lease are as follows:

	Payments Due by Period (in thousands)				
	Total	1 year or less	2-3 years	4-5 years	After 5 years
Operating leases	$ 3,917	$ 1,135	$ 1,934	$ 848	$ —

We expect that our operations will continue to use net cash at least through the end of calendar 2003. Our future cash requirements will be highly dependent upon our ability to control expenses, as well as the successful execution of the revenue plans by each of our business units. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

These conditions, together with our recurring operating losses, raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or liabilities that may result from the outcome of this uncertainty.

Recent Accounting Pronouncements

In 2003, the Company adopted Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Application of this statement did not have a significant effect on the Company's consolidated results of operations or financial position.

In July 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (Statement 146). Statement 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* (EITF 94-3). Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The Company adopted Statement 146 on January 1, 2003.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), effective prospectively for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for periods ending after December 15, 2002. Under FIN 45, a guarantor is required to recognize, at the inception of certain guarantees, a fair value liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. All guarantees subject to the disclosure provisions of FIN 45, such as product warranties, have been disclosed in the accompanying notes to the consolidated financial statements. The Company does not have any other outstanding guarantees at March 31, 2003 required to be disclosed or recorded as obligations upon adoption of FIN 45.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). This Interpretation changes the method of determining whether certain entities should be included in the Company's Consolidated Financial Statements. An entity is subject to FIN 46 and is called a variable interest entity (VIE) if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. All other entities are evaluated for consolidation under SFAS No. 94, Consolidation of All Majority-Owned Subsidiaries. The provisions of FIN 46 are to be applied immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. For VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003, FIN 46 applies in the first fiscal period beginning after June 15, 2003. The Company has not yet determined the impact, if any, that the adoption of FIN 46 will have on the Company's financial position, results of operations or cash flows.

RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report and in the information incorporated by reference into this report. You should consider the following risks carefully in addition to the together information contained in this report and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K before deciding to buy, sell or hold our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occurs, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

We Have Experienced Substantial Losses and May Continue to Experiencing Losses for the Foreseeable Future. We experienced losses from continuing operations of $ 1.5 million in the three months ended June 30, 2003, $4.4 million in the year ended March 31, 2003 and $5.2 million in the year ended March 31, 2002. In the three months ended September 30, 2001, we downsized our business in connection with our sale of the Gyyr CCTV Products line, the discontinuation of the business of our Mariner Networks subsidiary and the reorganization of our European operations to reduce our operating expenses. In addition, in May 2003, we sold our Zyfer business and we are continuing to explore the divestiture of the assets related to our Broadcast business. We cannot assure you that our efforts to downsize our operations or reduce our operating expenses or sell portions of our business will improve our financial performance, or that we will be able to achieve profitability on a quarterly or annual basis in the future. Most of our expenses are fixed in advance, and we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, we may continue to experience losses, which would make it difficult to fund our operations and achieve our business plan, and could cause the market price of our common stock to decline.

We Will Need to Raise Additional Capital in the Future, But We May Not Be Able to Secure Adequate Funds on Terms Acceptable to Us, or at All. We have generated significant net losses in recent periods, and have experienced negative cash flows from operations of $ 0.9 in the three months ended June 30, 2003, $4.8 million in the year ended March 31, 2003, $18.2 million in the year ended March 31, 2002 and $20.1 million in the year ended March 31, 2001. Although we completed a private placement in July 2003, the sale of our Anaheim, California property in May 2002 and the sale of our Zyfer subsidiary in May 2003, the majority of the proceeds from such sales were used to pay our outstanding debts and accounts payables. In addition, $2.5 million of the proceeds from the sale of the Anaheim property have been pledged to secure our performance under the leases for our Anaheim facility and was ultimately distributed to our landlord. In addition, we have yet to monetize the assets of our Broadcast subsidiary. As of June 30, 2003, our cash balance was approximately $ 0.2 million and we anticipate that we will need to raise additional capital in the future. Our Iteris subsidiary currently maintains a line of credit with a maximum availability of $5.0 million, which expires in August 2004. Substantially all of the assets of Iteris have been pledged to the lender to secure the outstanding indebtedness under this facility (although there were no amounts outstanding under the line of credit at March 31, 2003).

We plan to raise additional capital in the near future, either through bank borrowings, other debt or equity financings, or the divestiture of additional business units or select assets. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all. These conditions, together with our recurring losses and cash requirements, raise substantial doubt about our ability to continue as a going concern.

Our capital requirements will depend on many factors, including:

- our ability to control costs;
- market acceptance of our products and the overall level of sales of our products;
- our ability to generate operating income;
- our ability to renegotiate our existing real property leases;
- increased research and development funding, and required investments in our business units;
- increased sales and marketing expenses;
- technological advancements and our competitors' response to our products;
- capital improvements to new and existing facilities;
- potential acquisitions of businesses and product lines;
- our relationships with customers and suppliers; and
- general economic conditions, including the effects of the current economic slowdown and international conflicts.

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 or convertible debt 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 continue our operations as planned, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

The Trading Price of Our Common Stock Is Highly Volatile and Our Shares Are No Longer Listed on the Nasdaq SmallCap Market and As Such, You May Not Be Able to Resell Your Shares of Stock at or Above the Price You Paid for Them or At All. The trading price of our common stock has been subject to wide fluctuations in the past. Since January 2000, our Class A common stock has traded at prices as low as $0.45 per share and as high as $29.44 per share and our Class B common stock has traded at prices as low as $0.20 per share and as high as $29.62 per share. In 2003, because we failed to meet the minimum stockholder's equity and minimum share price requirements for continued listing on the Nasdaq SmallCap Market, both our Class A common stock and Class B common stock were delisted from the Nasdaq SmallCap Market and currently trade on the Over-the-Counter Bulletin Board. As such, the average daily trading volume has decreased and it may be more difficult for you to sell your shares in the future at or above the price you paid for them, or at all. This delisting may also make it more difficult for the Company to raise additional funds in the future. In addition, our securities are subject to "penny stock" restrictions, including Rule 15g-9 under the Exchange Act, which imposes additional sales practice requirements on broker-dealers, such as requirements pertaining to the suitability of the investment for the purchaser and the delivery of specific disclosure materials and monthly statements. Consequently, the liquidity of our securities could be impaired, not only in the number of securities which could be bought and sold, but also through delays in the timing of the transactions, reduction in security analysts' and the news media's coverage of us, adverse effects on the ability of broker-dealers to sell or securities, and lower prices for our securities than might otherwise be obtained.

The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

- quarterly variations in operating results;
- our ability to control costs and improve cash flow;
- shortages announced by suppliers;
- announcements of technological innovations or new products by our competitors, customers or us;
- acquisitions or businesses, products or technologies;
- changes in pending litigation or new litigation;
- changes in investor perceptions;
- our ability to spin-off any business unit;
- applications or product enhancements by us or by our competitors;
- changes in earnings estimates or investment recommendations by securities analysts; and
- international conflicts and political unrest.

The stock market in general has recently experienced volatility, which has particularly affected the market prices of equity securities of many high technology companies. This volatility has often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been the subject of securities class action litigation. If we were to become the subject of a class action lawsuit, it could result in substantial losses and divert management's attention and resources from other matters.

We Depend on Government Contracts and Subcontracts, and Because Many of our Government Contracts are Fixed Price Contracts, Higher Than Anticipated Costs Will Reduce Our Profit and Could Adversely Impact our Operating Results. A significant portion of the sales by Iteris were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 26%, 38% and 47% of our total net sales and contract revenues for the years ended March 31, 2001, 2002 and 2003, respectively. We anticipate that revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

- long purchase cycles or approval processes;
- competitive bidding and qualification requirements;
- performance bond requirements;
- changes in government policies and political agendas;
- 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.

Economic Slowdown and Related Uncertainties Could Adversely Impact the Demand for Our Products. Concerns about inflation, decreased consumer confidence, reduced corporate profits and capital spending, and recent international conflicts and terrorist and military actions have resulted in a downturn in worldwide economic conditions, particularly in the United States. As a result of these unfavorable economic conditions, we have experienced a slowdown in customer orders, cancellations and rescheduling of backlog and higher overhead costs. In addition, recent political and social turmoil related to international conflicts and terrorist acts can be expected to put further pressure on economic conditions in the U.S. and worldwide. These political, social and economic conditions make it extremely difficult for our customers, our suppliers and us to accurately forecast and plan future business activities. If such conditions continue or worsen, our business, financial condition and results of operations will likely be materially and adversely affected.

Our Quarterly Operating Results Fluctuate as a Result of Many Factors. Therefore, We May Fail to Meet or Exceed the Expectations of Securities Analysts and Investors, Which Could Cause Our Stock Price to Decline. Our quarterly revenues and operating results have fluctuated and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. Factors that could affect our revenues include, among others, the following:

- our ability to raise additional capital;
- our significant investment in research and development for our subsidiaries and business units;
- our ability to control costs;
- international conflicts and acts of terrorism;
- our ability to develop, introduce, market and gain market acceptance of new products applications and product enhancements in a timely manner;
- the size, timing, rescheduling or cancellation of significant customer orders;
- the introduction of new products by competitors;
- the availability of components used in the manufacture of our products;
- changes in our pricing policies and the pricing policies by our suppliers and competitors, pricing concessions on volume sales, as well as increased price competition in general;
- the long lead times associated with government contracts or required by vehicle manufacturers;
- our success in expanding and implementing our sales and marketing programs;

- the effects of technological changes in our target markets;
- our relatively small level of backlog at any given time;
- the mix of sales among our business units;
- deferrals of customer orders in anticipation of new products, applications or product enhancements;
- risks and uncertainties associated with our international business;
- currency fluctuations and our ability to get currency out of certain foreign countries; and
- general economic and political conditions.

In addition, our sales in any quarter may consist of a relatively small number of large customer orders. As a result, the timing of a small number of orders may impact our quarter-to-quarter results. The loss of or a substantial reduction in orders from any significant customer could seriously harm our business, financial condition and results of operations.

Due to all of the factors listed above and, our future operating results could be below the expectations of securities analysts or investors. If that happens, the trading price of our common stock could decline. As a result of these quarterly variations, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance.

We Have Adopted a New Operating Strategy, Which Is Untried and Exposes Us to New Risks. Recently, we divested ourselves of many of our business units and have begun to focus our business on the business of our Iteris subsidiary and, less significantly, on emerging homeland security opportunities. We continue to explore options for the sale of our other business units and have abandoned our strategy of incubating emerging companies, which required us to make significant investments in new business units with the goal of achieving profitability in each of our business units, and to a lesser extent, to monetize those business units for the benefit of our stockholders through an initial public offering or sale to a strategic buyer. The new focus of our business may not be profitable and the current climate of international conflicts and political unrest may not translate to a profitable market for our products. Our current business strategy is untried there is no assurance that the new business plan or the continued execution of the Iteris business will be successful.

If We Do Not Keep Pace with Rapid Technological Changes and Evolving Industry Standards, We Will Not be Able to Remain Competitive and There Will Be No Demand for Our Products. Our markets are in general characterized by the following factors:

- rapid technological advances;
- downward price pressure in the marketplace as technologies mature;
- changes in customer requirements;
- frequent new product introductions and enhancements; and
- evolving industry standards and changes in the regulatory environment.

Our future success will depend upon our ability to anticipate and adapt to changes in technology and industry standards, and to effectively develop, introduce, market and gain broad acceptance of new products and product enhancements incorporating the latest technological advancements.

We believe that we must continue to make substantial investments to support ongoing research and development in order to remain competitive. We need to continue to develop and introduce new products that incorporate the latest technological advancements in hardware, storage media, operating system software and applications software in response to evolving customer requirements. Our business and results of operations could be adversely affected if we do not anticipate or respond adequately to technological developments or changing customer requirements. We cannot assure you that any such investments in research and development will lead to any corresponding increase in revenue.

If We Are Unable to Develop and Introduce New Products and Product Enhancements Successfully and in a Cost-Effective and Timely Manner, or to Achieve Market Acceptance of Our New Products, Our Operating Results Would be Adversely Affected. We believe our revenue growth and future operating results will depend on our ability to complete development of new products and enhancements, introduce these products in a timely, cost-effective manner, achieve broad market acceptance of these products and enhancements, and reduce our product costs. We may not be able to introduce any new products or any enhancements to our existing products on a timely basis, or at all. In addition, the introduction of any new products could adversely affect the sales of certain of our existing products.

Our future success will also depend in part on the success of several products including AutoVue, our lane departure warning system. Iteris currently outsources the manufacture of its AutoVue product line to a single manufacturer. This manufacturer may not be able to produce sufficient quantities of this product in a timely manner or at a reasonable cost, which could materially and adversely affect our ability to launch or gain market acceptance of AutoVue.

MAXxess is expecting its product offering to include chemical detection systems and a security solution for municipalities called Safe Cities. Our ability to be successful in this endeavor is dependent upon the completion of software development tasks and the continued cooperation of Draeger Safety, Inc.

Market acceptance of our new products depends upon many factors, including our ability to accurately predict market requirements and evolving industry standards, our ability to resolve technical challenges in a timely and cost-effective manner and achieve manufacturing efficiencies, the perceived advantages of our new products over traditional products and the marketing capabilities of our independent distributors and strategic partners. Our business and results of operations could be seriously harmed by any significant delays in our new product development. Certain of our new products could contain undetected design faults and software errors or “bugs” when first released by us, despite our testing. We may not discover these faults or errors until after a product has been installed and used by our customers. Any faults or errors in our existing products or in any new products may cause delays in product introduction and shipments, require design modifications or harm customer relationships, any of which could adversely affect our business and competitive position.

Acquisitions of Companies or Technologies May Require Us to Undertake Significant Capital Infusions and Result in Disruptions of Our Business and Diversion of Resources and Management Attention. Over the past few years, we have expanded our operations and made several substantial acquisitions of diverse businesses, including Meyer Mohaddes Associates, Inc., Viggen Corporation, and certain assets of the Transportation Systems business of Rockwell International. We may continue to engage in acquisitions of complementary businesses, products and technologies. Acquisitions may require significant capital infusions and, in general, acquisitions also involve a number of special risks, including:

- potential disruption of our ongoing business and the diversion of our resources and management's attention;
- the failure to retain or integrate key acquired personnel;
- the challenge of assimilating diverse business cultures, and the difficulties in integrating the operations, technologies and information system of the acquired companies;
- increased costs to improve managerial, operational, financial and administrative systems and to eliminate duplicative services;
- the incurrence of unforeseen obligations or liabilities;
- potential impairment of relationships with employees or customers as a result of changes in management; and
- increased interest expense and amortization of acquired intangible assets.

Acquisitions may also materially and adversely affect our operating results due to large write-offs, contingent liabilities, substantial depreciation, deferred compensation charges or goodwill amortization, or other adverse tax or audit consequences. Our failure to manage growth and integrate our acquisitions successfully could adversely affect our business, financial condition and results of operations.

Our competitors are also soliciting potential acquisition candidates, which could both increase the price of any acquisition targets and decrease the number of attractive companies available for acquisition. We cannot assure you that we will be able to consummate any additional acquisitions, successfully integrate any acquisitions or realize the benefits anticipated from any acquisition.

The Markets in Which We Operate Are Highly Competitive and Have Many More Established Competitors, Which Could Adversely Affect Our Sales or the Market Acceptance of Our Products. 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 Do Not Have Employment Agreements with Any Key Personnel and We May be Unable to Attract and Retain Key Personnel, Which Could Seriously Harm Our Business. 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 Chairman of the Board, who recently retired as our Chief Executive Officer, and Gregory A. Miner, our Chief Executive 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 individuals could adversely affect our business, financial condition or results of operations.

Our success will also depend in large part upon our ability to continue to attract, retain and motivate qualified engineering and other highly skilled technical personnel. Competition for employees, particularly development engineers, is intense. We may not be able to continue to attract and retain sufficient numbers of such highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely affect our business, financial condition and results of operations.

We May Not be Able to Adequately Protect or Enforce Our Intellectual Property Rights, Which Could Harm Our Competitive Position. 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 systems. Our competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. As a result, we may not be able to protect our proprietary rights adequately in the United States or abroad.

From time to time, we have received notices that claim we have infringed upon the intellectual property of others. Even if these claims are not valid, they could subject us to significant costs. We have engaged in litigation in the past, and litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on terms acceptable to us, or at all. We also may have to indemnify certain customers or strategic partners if it is determined that we have infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect 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.

We Have Significant International Sales and Our International Business Operations May be Threatened by Many Factors That are Outside of Our Control. Despite the reorganization of our European operations and the resulting reduction in international sales, such sales have historically represented a small portion of our total net sales and contract revenue.

International business operations are also subject to other inherent risks, including, among others:

- unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;
- longer accounts receivable payment cycles;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences;
- the burdens of compliance with a wide variety of foreign laws;
- import and export license requirements and restrictions of the United States and each other country in which we operate;
- exposure to different legal standards and reduced protection for intellectual property rights in some countries;
- currency fluctuations and restrictions; and
- political, social and economic instability.

We believe that continued growth and profitability could require expansion of our international operations. Nearly all of our international sales from this point on 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.

Any of the factors mentioned above may adversely affect our future international sales and, consequently, affect our business, financial condition and operating results. Furthermore, as we increase our international sales, our total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower sales that typically occur during the summer months in Europe and other parts of the world.

Some of Our Directors, Officers and Their Affiliates Can Control the Outcome of Matters that Require the Approval of Our Stockholders, and Accordingly We Will Not be Able to Engage in Certain Transactions Without Their Approval. As of June 18, 2003, our officers and directors beneficially owned approximately 21% of the total combined voting power of the outstanding shares of our Class A common stock and Class B common stock**.** As a result of their stock ownership, our management will be able to significantly influence the election of our directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how our other stockholders may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in our management or change in control and may adversely affect the voting or other rights of other holders of common stock.

Our Stock Structure and Certain Anti-Takeover Provisions May Affect the Price of Our Common Stock and Discourage a Third Party from Acquiring Us. 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. The disparity in the voting rights between our common stock, as well as our insiders' significant ownership of the Class B common stock, could discourage a proxy contest or make it more difficult for a third party to effect a change in our management and control. In addition, our Board of Directors is authorized to issue, without stockholder approval, up to 2,000,000 shares of preferred stock with voting, conversion and other rights and preferences superior to those of our common stock, as well as additional shares of Class B common stock. Our future issuance of preferred stock or Class B common stock could be used to discourage an unsolicited acquisition proposal.

In March 1998, we adopted a stockholder rights plan and declared a dividend of preferred stock purchase rights to our stockholders. In the event a third party acquires more than 15% of the outstanding voting control of our company or 15% of our outstanding common stock, the holders of these rights will be able to purchase the junior participating preferred stock at a substantial discount off of the then current market price. The exercise of these rights and purchase of a significant amount of stock at below market prices could cause substantial dilution to a particular acquiror and discourage the acquiror from pursuing our company. The mere existence of a stockholder rights plan often delays or makes a merger, tender offer or proxy contest more difficult.

We Do Not Pay Cash Dividends. We have never paid cash dividends on our common stock and do not anticipate paying any cash dividends on either class of our common stock in the foreseeable future.

We May Be Subject to Additional Risks. The risks and uncertainties described above are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Our exposure to interest rate risk is limited to our lines of credit. Iteris' and Odetics' lines of credit bear interest at the prevailing prime rate, plus 2% and 4% respectively. A 10% increase in interest rate would not have a material impact on our financial position, operating results, at cash flows. In addition, we believe that the carrying value of our debt outstanding approximates fair value.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of Odetics' disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, the Company's principal executive officer and principal financial officer has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company required to be included in the reports that the Company files or submits under the Exchange Act.

Changes in Internal Control over Financial Reporting

During the most recent fiscal quarter covered by this report, there has been no change the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings

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

10.1	Change in Control Agreement dated May 8, 2003 by and between Odetics, Inc. and Gregory A. Miner.
31	Certification of the Principal Executive Officer and Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of the Chief Executive Officer and Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

On May 23, 2003, we filed a Current Report on Form 8-K to announce the sale of substantially all of the assets of our Zyfer, Inc. subsidiary to FEI-Zyfer, Inc., a wholly-owned subsidiary of Frequency Electronics, Inc.

On June 6, 2003, we furnished a Current Report on Form 8-K regarding the financial results of the fourth quarter ended March 31, 2003.

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,
Chief Executive Officer and Chief Financial Officer
(Principal Financial Officer)

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

Dated: August 14, 2003

Exhibit 10.1

CHANGE IN CONTROL AGREEMENT

THIS AGREEMENT is entered into as of May 8, 2003, by and between Gregory A. Miner (the "Executive") and Odetics, Inc., a Delaware corporation (the "Corporation").

Section 1. Term of Agreement.

This Agreement shall take effect on the Effective Date and shall expire on the date the executive's employment terminates for any reason not described in Section 3(a).

Section 2. Definitions.

"Change in Control" shall mean:

(a) The consummation of a merger or consolidation of the Corporation with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Corporation immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (i) the continuing or surviving entity and (ii) any direct or indirect parent corporation of such continuing or surviving entity. Notwithstanding the forgoing, any consolidation or combination of Iteris and the Corporation through a repurchase of a portion or all of the minority interest of Iteris by the Corporation, or a merger of Iteris and the Corporation shall be deemed to be a Change in Control. This trigger will only occur if the Board does not offer Greg the CEO job in the new consolidated company.

(b) The sale, transfer or other disposition of all or substantially all of the Corporation's assets;

(c) A Change in the composition of the Board, as a result of which fewer than 50% of the incumbent directors are directors who either:

(i) had been directors of the Corporation on the date 24 months prior to the date of such change in the composition of the Board (the "Original Directors") or

(ii) were appointed to the Board, or nominated for election to the Board, with the affirmative votes of at least a majority of the aggregate of (A) the Original Directors who were in office at the time of their appointment or nomination and (B) the directors whose appointment or nomination was previously approved in a manner consistent with this clause (ii); or

(d) Any transaction as a result of which any person is the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing at least 35% of the total voting power represented by the Corporation's then outstanding voting securities. For purposes of this Paragraph (d), the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an associate benefit plan of the corporation or of a Parent or Subsidiary and (ii) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of the common stock of the Corporation.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Corporation's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who field the Corporation's securities immediately before such transaction.

"Involuntary Termination" shall mean the termination of the Service of any individual which occurs by reason of:

(e) such individual's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

(f) such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her level of responsibility, (B) a material reduction in his or her level of compensation (including base salary, fringe benefits and participation in bonus or incentive programs) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the individual's consent.

"Misconduct" shall mean the commission of any material act of fraud, embezzlement or dishonesty by Executive, any material unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional material misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary). The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of any other person in the employ or service of the Corporation (or any Parent or Subsidiary).

"Annual Base Pay" shall mean Executive's base salary at the highest rate in effect at any regularly scheduled payroll period preceding the occurrence of the Change in Control and does not include, for example, bonuses, overtime compensation, incentive pay, sales commissions or expense allowances.

"Target Bonus" shall mean 100% of the bonus potential established for the Executive by the Corporation for the applicable fiscal year.

Section 3. Severance Payment.

(a) Entitlement to Payment. Subject to Section 9, the Executive shall be entitled to receive a severance payment from the Corporation under this Agreement (the "Severance Payment") if, the Executive is Involuntarily Terminated within three (3) months prior to or twenty-four (24) months after a Change in Control.

(b) Time and Amount of Payment The Severance Payment shall be paid in one lump sum starting with the next normally scheduled payroll date of the Corporation following the latest of the following dates: Executive's last day of employment, the date the Company receives Executive's signed general release of all claims pursuant to Section 9, or the date the revocation period (if any) specified in the general release of all claims expires. The amount of the Severance Payment shall be equal to the following:

- 200% of the Executive's Annual Base Pay, plus
- The Target Bonus for the current Fiscal Year

Payments made under this Agreement shall not be treated as "compensation" for purposes of the 401(K) Profit Sharing Plan. Executive will also receive his unpaid salary through his termination date and a lump sum payment for all accrued and unused vacation (through the termination date) in a final paycheck provided on his last day of work.

(c) Mitigation and Reemployment. The Executive shall not be required to mitigation the amount of any payment contemplated by this Section 3 (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that the Executive may receive from any other source. If the Executive is reemployed by the Corporation or an affiliate of the Corporation within 24 months after receiving a Severance Payment, the Executive shall return a pro rata portion of such Severance Payment to the Corporation in an amount and manner to be negotiated upon reemployment.

Section 4. Payments Unfunded and Non-Assignable.

(a) No Funding. Any payments to be made under Section 4 shall represent an unfunded and unsecured obligation of the Corporation, which shall represent an unfunded and unsecured obligation of the Corporation's general assets. The Executive shall be considered a general creditor of the Corporation and shall have no rights to any segregated funds or property of the Corporation.

(b) No Assignment. The Executive's right to payments under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section 4(b) shall be void.

Section 5. Group Insurance Coverage. If the Executive becomes entitled to a Severance Payment under this Agreement, then the Corporation shall continue to provide all insurance benefits provided on the date of termination to the Executive and, if applicable, to the executive's dependents for a period of twenty-four (24)} months from the date of termination.

The Corporation's obligation to pay premiums or make contributions under this Subsection (a) cease when the Executive obtains new employment offering comparable welfare benefits.

Section 6. Tax Effect of Payments.

(a) Gross-Up Payment. In the event that it is determined that any payment or distribution of any type to or for the benefit of the Executive made by the Corporation, by any of its affiliates, by any person who acquires ownership or effective control of the Corporation or ownership of a substantial portion of the Corporation's assets (within the meaning of Section 280G of the Code and the regulations thereunder) or by any affiliate of such person, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest or penalties, are collectively referred to as the "Excise Tax"), then subject to Section 9 the Corporation shall pay Executive an additional amount (a "Gross-Up Payment") equal to the amount that shall fund the payment by the Executive of any Excise Tax on the Total Payments as well as all income taxes imposed on the Gross-Up Payment, any Excise Tax imposed on the Gross-Up Payment and any interest or penalties imposed with respect to taxes on the Gross-Up Payment or any Excise Tax.

(b) Determination by Accountant. All mathematical determinations and all determinations of whether any of the Total Payments are "parachute payments" (within the meaning of Section 280G of the code) that are required to be made under this Section 6, including all determinations of whether a Gross-Up Payment is required, of the amount of such Gross-Up Payment and of amounts relevant to the last sentence of this Section 6, shall be made by the independent accounting firm of Ernst & Young (the "Accounting Firm"), which shall provide its determination (the "Determination"), together with detailed supporting calculations regarding the amount of any Gross-Up Payment and any other relevant matters, both to the Corporation and to the Executive within seven business days of the Executive's termination date, if applicable, or such earlier time as is requested by the Corporation or by the Executive (if the Executive reasonably believes that any of the Total Payments may be subject to the Excise Tax. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written statement that such Accounting Firm has concluded that no Excise Tax is payable (including the reasons therefore) and that the Executive has substantial authority not to report any Excise Tax on the Executive's federal income tax return. If a Gross-authority not to report any Excise Tax on the Executive's federal income tax return. If a Gross-Up Payment is determined ot be payable, it shall be paid to the Executive within five business days after the Determination is delivered to the Corporation or the Executive. Any determination by the Accounting Firm shall be binding upon the Corporation and the Executive, absent manifest error.

(c) Underpayments and Overpayments. As a result of uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments not made by the Corporation should have been made ("Underpayments"). IN either event, the Accounting Firm shall determine the amount of the Underpayment or Overpayment that has occurred. In the case of an Underpayment, the amount of such Underpayment shall promptly be paid by the Corporation to or for the benefit of the Executive. In the case of an Overpayment, the Executive shall, at the direction and expense of the Corporation, take such steps as are reasonably necessary (including the filing of returns and claims for refund), follow reasonable instructions from, and procedures established by, the Corporation and otherwise reasonable cooperate with the Corporation to correct such Overpayment; *provided, however*, that (i) the Executive shall in no event be obligated to return to the Corporation an amount greater that the net after-tax portion of the Overpayment that the Executive has retained or has recovered as a refund from the applicable taxing authorities and (ii) this provision shall be interpreted in a manner consistent with the intent of this Section 6, which is to make the Executive whole, on an after-tax basis, for the application of the Excise Tax, it being understood that the correction of an Overpayment may result in the Executive's repaying to the Corporation an amount which is less than the Overpayment.

Section 7. Successors.

(a) Corporation's Successors. The Corporation shall require any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Corporation's business and/or assets to assume this Agreement and to agree expressly and in writing to perform this Agreement in the same manner and to the same extent as the Corporation would have been required to perform it in the absence of a succession. The Corporation's failure to obtain such an assumption prior to the effectiveness of a succession shall be a breach of this Agreement. For all purposes under this Agreement, the term "Corporation" shall include any successor to the Corporation's business and/or assets which executes and delivers the assumption agreement described in this Section 7(a) or which becomes bound by this Agreement by operation of law.

(b) Executive's Successors. This Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

Section 8. Miscellaneous Previsions

(a) No Waivers. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Corporation (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision or of the same condition or provision at another time.

(b) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California. .

(c) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(d) Arbitration. Except for responsibilities assigned to the Accounting Firm under Section 6, any dispute or controversy arising under or in connection with this Agreement, including but not limited to disputes arising out of or related to the Agreement and Release, shall be resolved by the following procedures, except that steps (3) and (4) will not be followed in cases where the law specifically forbids the use of arbitration as a final and binding remedy:

(1) The party claiming to be aggrieved shall furnish to the other party a written statement of the grievance identifying any witnesses or documents that support the grievance and the relief requested or proposed.

(2) If within three weweks, the other party does not agree to furnish the relief requested or proposed, or otherwise does not satisfy the demand of the party claiming to be aggrieved, the parties shall submit the dispute to nonbonding mediation before a mediator to be jointly selected by the parties. The Corporation will pay the cost of the mediation.

(3) If the mediation does not produce a resolution of the dispute, the parties agree that the dispute shall be resolved by final and binding arbitration. The parties shall attempt to agree to the identity of an arbitrator, and, if they are unable to do so, the Corporation shall provide the Executive with a list of no fewer than five (5) names of arbitrators, each of whom have been appointed in at least 10 cases, excluding cases in which the corporation shall have been involved and the Executive shall pick and, if so, to grant any relief authorized by law; provided, however, that nothing herein shall limit the right of the Corporation to obtain injunctive relief in court for violation of the Corporation's proprietary information agreement. The arbitrator shall not have the authority to modify, change or refuse to enforce the terms of this Agreement.

The hearing shall be transcribed. The Corporation shall bear the costs of the arbitration if the Executive prevails. If the Corporation prevails, the Executive will pay half the cost of the arbitration or $500, whichever is less. Each party shall be responsible for paying its own attorneys fees.

(4) Arbitration shall be the exclusive final remedy for any dispute between the parties, and the parties agree that no dispute shall be submitted to arbitration where the party claiming to be aggrieved has not complied with the preliminary steps provided for above.

Section 9. Release and Waiver of Claims

Any other provision of this Agreement notwithstanding, the Executive shall not be entitled to receive any Severance Payment or other payment or benefit under this Agreement unless the Executive has executed waiver of claims and the attached general release of all claims in favor of the Corporation and its affiliates. Such waiver shall be executed on a form provided by and acceptable to the Corporation. The form of the waiver will specify how much time Executive has to sign it and whether there is a revocation period.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Corporation by its duly authorized officer, as of the day and year first above written.

/s/ GREGORY A. MINER
Executive

By: /s/ JOEL SLUTZKY

Title: Chairman

RELEASE OF CLAIMS

This Release of Claims is entered into by and between , a Delaware corporation (the "Company") and ("Associate"). It is entered into pursuant to the terms of a Severance Protection Agreement (the "Agreement") between Associate and Company dated , and in order to resolve amicably all matters between Associate and the Company concerning the Agreement and Associate's termination of employment with the Company and benefits payable to Associate under terms of the Agreement.

1. Termination of Employment. Associate's employment with the Company has been terminated as a result of a Corporate Transaction, an Involuntary Termination Without Cause or a Voluntary Resignation for Good Reason, as defined in the Change in Control Agreement, Section 2 by which Associate became eligible for benefits upon termination of employment.
2. Severance Pay Associate will be entitled to severance payments as defined in the Change in Control Agreement, Section 3. Associate is also eligible for certain other continuation of benefits under the terms of the Change in Control Agreement. Associate acknowledges that Associate has no entitlement to said benefits except according to the terms of the Change in Control Agreement, which includes a requirement that Associate execute this Release of Claims.
3. Sole Entitlement. Associate acknowledges and agrees that no other monies or benefits are owing to Associate except as set forth in the Agreement.
4. Return of Property and Documents. Associate states that Associate has returned to the Company all property and documents of the Company which were in Associate's possession or control, including without limitation access cards, Company-provided credit cards, computer equipment and software.
5. Confidentiality, Nondisparagement and Nonsolicitation Agreement. Associate agrees to abide by the terms of the Confidentiality Agreement that Associate previously executed in connection with his employment with the Company. Associate agrees not to make any communications or engage in any conduct that is or can reasonably be construed to be disparaging of the Company, its officers, directors, Associates, agents, stockholders, products or services. The Company agrees not to make any communications or engage in any conduct that is or can reasonably be construed to disparaging of Associate. For a period of two (2) years following Associate's termination of employment with the Company, the Associate agrees not to solicit, directly or indirectly, any associates of the Company, for employment with any other employer.
6. Release. Associate (for him/herself, his/her agents, heirs, successors, assigns, executors and/or administrators) does hereby and forever release and discharge the Company and its past and present parent, subsidiary and affiliated corporations, division or other related entities, as well as the successors, shareholder, officers, directors, heirs, predecessors, assigns, agents, Associates, attorneys and representatives of each of them, past or present (hereinafter the "Releases") from any and all causes of action, actions,

judgments, liens, debts, contracts, indebtedness, damages, losses, claims, liabilities, rights, interests and demands of whatsoever kind or character, known or unknown, suspected to exist or not suspected to exist, anticipated or not anticipated, whether or not heretofore brought before any state or federal court or before any state or federal agency or other governmental entity, which Associate has or may have against any released person or entity by reason of any and all acts, omissions, events or facts occurring or existing prior to the date hereof, including, without limitation, all claims attributable to the employment of Associate, all claims attributable to the termination of that employment, and all claims arising under any federal, state or other governmental statute, regulations or ordinance or common law, such as, for example and without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act which prohibits discrimination on the basis of age over 40, the California Fair Employment and Housing Act, the California Labor Code, the Texas Commission on Human Rights Act, and wrongful termination claims, excepting only those obligations expressly recited to be performed hereunder.

In light of the intention of Associates (for him/herself, his/her agents, heirs, successors, assigns, executors and/or administrators) that this release extend to any and all claims of whatsoever kind or character, known or unknown, Associate expressly waives any and all rights granted by California Civil Code Section 1542 (or any other analogous federal or state law or regulation). Section 1542 reads as follows:

> A GENERAL RELASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT OT EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS STETTLEMENT WITH THE DEBTOR.

7. No Actions Pending. Associate agrees that he/she has not filed, nor will he/she file in the future, any claims, actions or lawsuits against any of the Releases relating to Associate's employment with the Company, or the termination thereof.
8. No Admissions. Nothing contained herein shall be construed as an admission of wrongdoing or liability by any party hereto.
9. Entire Agreement; Miscellaneous. This Agreement constitutes a single integrated contract expressing the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the subject matter hereof. There are no other agreements, written or oral, express or implied between the parties hereto, concerning the subject matter hereof. There are no other agreements, written or oral, express or implied, between the parties

hereto, concerning the subject matter hereof, except as set forth herein. This Agreement may be amended or modified only by an agreement in writing, and it shall be interpreted and enforced according to the laws of the State of Texas. Should any of the provisions of the Agreement be determined to be invalid by a court of competent jurisdiction, it is agreed that this shall not affect the enforceability of the other provisions herein.

10. Waiting Period and Right of Revocation. ASSOCIATE ACKNOWLEDGES THAT ASSOCIATE IS AWARE AND IS HEREBY ADVISED THAT ASSOCIATE HAS THE RIGHT TO CONSIDER THIS AGREEMENT FOR TWENTY-ONE DAYS BEFORE SIGNING IT, ALTHOUGH ASSOCIATE IS NOT REQUIRED TO WAIT THE ENTIRE TWENTY-ONE DAY PERIOD; AND THAT IF ASSOCIATE SIGNS THIS AGREEMENT PRIOR TO THE EXPIRATION OF TWENTY-ONE DAYS, ASSOCIATE IS WAIVING THIS RIGHT FREELY AND VOLUNTARILY. ASSOCIATE ALSO ACKNOWLEDGES THAT ASSOCIATE IS AWARE AND IS HEREBY ADVISED OF ASSOCIATE'S RIGHT TO REVOKE THIS AGREEMENT FOR A PERIOD OF SEVEN DAYS FOLLOWING THE SIGNING OF THIS AGREEMENT AND THAT IT SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE REVOCATION PERIOD HAS EXPIRED. TO REVOKE THIS AGREEMENT, ASSOCIATE MUST NOTIFY THE COMPANY IN WRITING WITHIN SEVEN DAYS OF SIGNING IT.

11. Attorney Advice. ASSOCIATE ACKNOWLEDGES THAT ASSOCIATE IS AWARE OF ASSOCIATE'S RIGHT TO CONSULT AN ATTORNEY, THAT ASSOCIATE HAS BEEN ADVISED TO CONSULT WITH AN ATTORNEY, AND THAT ASSOCIATE HAS HAD THE OPPORTUNITY TO CONSULT WITH AN ATTORNEY, IF DESIRED, PRIOR TO SIGNING THIS AGREEMENT.

12. Understanding of Agreement. Associate states that Associate has carefully read this Agreement, that Associate fully understands its final and binding effect, that the only promises made to Associate to sign this Agreement are those stated above, and that Associate is signing this Agreement voluntarily.

Dated: ______________________________

Dated: ______________________________

By: ______________________________

Title: ______________________________

EXHIBIT 31

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory A. Miner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Odetics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ GREGORY A. MINER
Gregory A. Miner,
Chief Executive Officer and Chief Financial Officer
(*Principal Executive Officer and Principal Financial Officer*)

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Odetics, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gregory A. Miner, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GREGORY A. MINER
Gregory A. Miner
Chief Executive Officer and Chief Financial Officer

August 14, 2003

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.