

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 1999

OR

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

For the transition period from _____ to _____

Commission file number 000-10605

ODETICS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware

95-2588496

(State or Other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer
Identification No.)

1515 South Manchester Avenue, Anaheim, California 92802
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (714) 774-5000

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Class A common stock, \$.10 par value
Class B common stock, \$.10 par value
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by a check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to
the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K. ☒

Based on the closing sale price on Nasdaq National Market on June 24, 1999,
the aggregate market value of the voting stock held by nonaffiliates of the
registrant was \$63,577,358. For the purposes of this calculation, shares owned
by officers, directors and 10% stockholders known to the registrant have been
deemed to be owned by affiliates. This determination of affiliate status is

not necessarily a conclusive determination for other purposes.

Odetics has two classes of common stock outstanding, the Class A common stock and the Class B common stock. The rights, preferences and privileges of each class of common stock are identical in all respects, except for voting rights. Each share of Class A common stock entitles its holder to one-tenth of one vote per share and each share of Class B common stock entitles its holder to one vote per share. As of June 24, 1999, there were 7,947,445 shares of Class A common stock and 1,060,041 shares of Class B common stock outstanding. Unless otherwise indicated, all references to common stock shall collectively refer to the Class A common stock and the Class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the annual meeting of the stockholders scheduled to be held on September 30, 1999.

ODETICS, INC.

FORM 10-K ANNUAL REPORT

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incorporated herein by reference, the words "expect(s)," "feel(s)," "believe(s)," "will," "may," "anticipate(s)," and similar expressions are intended to identify forward-looking statement. Such statements 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 which 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 affect our business, including the risk factors set forth at the end of Part I, Item 1 of this report and in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PART I

ITEM 1. BUSINESS

General

Odetics, Inc. was founded in 1969 to supply digital recorders for use in the United States space program. We pioneered new designs and standards for digital magnetic tape recorders offering high reliability and enhanced performance in the adverse environment attendant to space flight. In the 1970s, we broadened our information automation product line to include time-lapse videocassette recorders for commercial and industrial security and surveillance applications. Through our Gyyr division, we became a leading supplier of time-lapse videotape cassette recorders, digital image processing modules and related products used in security and surveillance systems. We incorporated our Gyyr division in 1997, forming a wholly-owned subsidiary, Gyyr, Inc. In October 1997, we expanded Gyyr by acquiring Intelligent Controls Inc., a manufacturer of access control products specializing in PC based, remote site and fiber optic communications.

Leveraging our expertise in video image processing, we entered into the intelligent transportation system business with the introduction of a video vehicle detection system in 1993. In June 1997, we acquired certain assets comprising the Transportation Systems business from Rockwell International, creating our ITS division, which expanded our offerings to include advanced traffic management systems and advanced traveler information systems. We incorporated our ITS division in 1998 as Odetics ITS, Inc. In October 1998, we broadened our systems offerings by acquiring Meyer, Mohaddes Associates, Inc., which currently operates as a subsidiary of Odetics ITS.

In the early 1980s, we set out to develop the technical expertise to apply automation to new commercial applications and established our Broadcast division. The Broadcast division develops and manufactures broadcast automation control systems and pioneered the use of video tape libraries in broadcast television stations and satellite uplink operations. The success of our video tape libraries led us to pursue new applications for information automation technologies. In 1991, we introduced an automated tape handling subsystem for integration into tape libraries designed for midrange computers and client/server networks. In January 1993, we formed a separate subsidiary, ATL Products, Inc., to pursue the market for automated tape libraries. In March 1997, ATL completed an initial public offering of 1,650,000 shares of its Class A common stock. We distributed our remaining 82.9% interest in ATL to our stockholders in a tax-free distribution in October 1997.

Today, Odetics is a collection of high technology companies and operating divisions, each with its own marketplace, customers and products. These operations share a common corporate overhead for support for facilities, human resources, benefits, accounting and finance, and some executive management services. We are pursuing our incubator business strategy to nurture and develop each of these operations with the ultimate goal of achieving a tax-free spin-off of each entity to our stockholders. In April 1999, we applied for a determination letter from the Internal Revenue Service to confirm the tax-free status of our proposed spin-off of Gyyr, Broadcast and Odetics ITS. We currently define our business segments as video products, telecom products and ITS. Our video products segment includes our Broadcast division and our Gyyr subsidiary. Our telecom products segment includes our Communications division and our Mariner Networks subsidiary. Our ITS segment consists of our Odetics ITS subsidiary. For financial information concerning our business segments, please see Note 12 of Notes to Consolidated Financial Statements.

Video Products

Broadcast Division

The Broadcast division delivers systems to automate the storage and scheduling of commercials, news stories and other television programming recorded on videotape and video server storage systems. We believe that enhanced operational efficiencies will be a principal factor underlying the increased automation of broadcast television stations and satellite uplink operations as the industry transitions to digital television.

The Broadcast division's earliest commercial success came from the manufacture of video tape libraries. The video tape library market has experienced a trend toward smaller libraries, coupled with digital hard disk recording devices. To address this market, we introduced the TCS45 tape library, which incorporates highly integrated caching systems. The TCS45 can be coupled with hard drive recorders available from several recognized suppliers to the broadcast community. We now offer software to form powerful integrated systems, including our SpotBank and Airo™ automation. In fiscal 1999, we began shipping the Roswell facility management system, which is designed for enterprise automation of operations at television broadcast facilities. Multi-channel presentation systems, which integrate the complete line of our hardware with commonly available broadcast quality video disk recorders, are quickly becoming the core business of the Broadcast division. The Broadcast division is focused on video asset management including desktop video browsing using a network PC architecture, which can be extended to wide area network applications and Internet applications.

Sales, Marketing and Principal Customers. The Broadcast division sells directly to broadcast television stations, satellite uplink operations, and other broadcast television and cable television system operators. The sales and marketing management for our Broadcast division is located at our principal facilities in Anaheim, California. The Broadcast division maintains a dedicated field sales force of four persons operating in four U.S. sales regions and Canada, and a sales manager for Latin America. The European sales and marketing activities for the Broadcast division are conducted and managed by Odetics Europe Limited, a wholly-owned United Kingdom subsidiary of Odetics. Odetics Asia Pacific Pte. Ltd., Odetics' wholly-owned subsidiary located in Singapore, conducts Asian sales and marketing activities for the Broadcast division. The Broadcast division also utilizes additional independent representative organizations to promote its products in various other foreign markets.

The Broadcast division's customers include major television networks such as Fox, the Canadian Broadcasting Corporation, CNBC, FNN, Euronews, Televisa, Measat Broadcast Network Systems, NBC, the PBS Network, Group W Satellite Communications (for the Arts & Entertainment Network and the Discovery Channel), Asia Broadcast Centre, Univision and over 100 independent and network-affiliated television stations. The Broadcast division currently has systems installed in over 30 countries.

Manufacturing and Materials. The Broadcast division maintains a dedicated manufacturing operation located within our Anaheim, California facilities. Our SpotBank and Airo products are manufactured primarily on a lot assembly/module build basis in a second manufacturing plant located in Austin, Texas. At the Anaheim facility, the Broadcast division and Gyr share common infrastructure support in the areas of production and inventory control, purchasing, quality assurance, manufacturing and engineering. A single management structure oversees these operations.

The Broadcast division purchases video servers from Tektronix, Leitch and Hewlett-Packard and video switching, conversion and monitoring equipment from Tektronix and Leitch for installation in our automated video management systems. The Broadcast division also purchases cabinets and other fabricated parts and components from other third party suppliers.

Gyr, Inc.

Gyr produces analog and digital video products and access control systems that meet the security and surveillance needs for a variety of markets including banking, commercial/industrial and retail. Gyr's timelapse

VCRs, for example, are installed in automated teller machines and retail point of sale systems to record transaction information in an effort to deter and address incidents of theft and other crimes. Gyyr's access control systems offer managed access and monitoring of public, private and high security facilities. Customer demand for more sophisticated capabilities and integration due to digital technology has also contributed to the recent growth in the market for Gyyr's products. Recent additions to Gyyr's product offerings include network video and device control, intelligent dome cameras, video multiplexing and digital recording. We sell these products as individual box products as well as components of fully-integrated network security control systems.

Sales, Marketing and Principal Customers. Gyyr markets and sells its products through three established channels: OEMs, independent distributors and system integrators. Gyyr personnel located at our principal facilities and sales offices throughout the world oversee approximately 2,000 of these channel partners. Gyyr has a business development and service organization located at our Odetics Europe Limited subsidiary. In addition, Odetics Europe Limited assists Gyyr with management in the development of European, Middle East and African markets. Gyyr also utilizes Odetics Asia Pacific Pte. Ltd. to assist in sales to the Asian markets. Gyyr's principal customers include major security equipment companies such as Diebold, Inc., ADT Security Systems, Inc., Honeywell, Inc., Mosler, Inc., Hamilton Safe and ADI.

Manufacturing and Materials. Gyyr maintains a dedicated manufacturing area located within our principal facilities in Anaheim, California. Gyyr primarily uses continuous demand flow techniques in its assembly lines. Gyyr and the Broadcast division share common infrastructure support in the areas of production and inventory control, purchasing, quality assurance and manufacturing engineering. A single management structure oversees these operations.

Gyyr purchases VCRs modified to our specifications exclusively through Nissei Sangyo America, the United States distribution affiliate of Hitachi, Ltd., into which we incorporate certain value-added features. As a result of its exclusive relationship with Hitachi, Ltd, Gyyr is vulnerable to Hitachi's actions, which might necessitate changes in the design or manufacturing of Gyyr's products. While other suppliers are available who can manufacture VCRs suitable for use in Gyyr's products, we would be required to make changes in our product design or manufacturing methods to accommodate other VCRs, and Gyyr could experience delays or interruptions in supply while these changes are incorporated or a new supplier is procured.

Telecom Products

Communications Division

The Communications division includes telecom network synchronization products and space borne digital data recorders. Our telecom network synchronization products synchronize communications for data security, local timing networks and wireless communications systems. These products are based on G.P.S. technologies and are sold for new applications in cellular telephone systems, PCS networks and satellite communications. A significant customer of the Communications division is LGIC of Korea. See "Risk Factors--Our Operating Results Have Been Adversely Affected by the Asian Economic Crisis."

The Communications division's space borne digital data recorders are used in manned and unmanned space vehicles to store data gathered by onboard sensors prior to transmission of the data to ground receiving stations. These recorders are employed in satellite programs for space research, earth resource and environmental observation and weather monitoring, as well as global surveillance and classified government programs.

Sales, Marketing and Principal Customers. The Communications division conducts its selling and marketing activities worldwide directly from our principal facilities in Anaheim, California. We sell our telecom synchronization products primarily through manufacturers' representatives. During the fiscal year ended March 31, 1999, approximately 49% of the Communication division's sales were derived from contracts with domestic or foreign governmental agencies and prime government contractors.

Manufacturing and Materials. The Communications division manufactures its telecom synchronization products to best commercial practices and became ISO certified in February 1997. Most of the manufacturing processes consist of final assembly and test. We outsource board assembly and some preliminary fabrication processes.

The manufacture of space borne digital recorders consists primarily of low volume, program-managed manufacture, often with nonrecurring engineering for individual customer needs. Because of these unique requirements, we have extensive machining and electronic assembly capabilities in order to manage cost, schedule and quality levels to the unusual and exacting needs of our customers.

Mariner Networks, Inc.

We formed our wholly-owned subsidiary, Mariner Networks, Inc., during the fiscal year ended March 31, 1998, to pursue certain aspects of our network interface and communications business. Mariner Networks manufactures components and complete solutions for branch office access applications. Mariner Networks' products include ATM subsystems, Frame Relay-to-ATM networking components and systems, and ATM wide area network access concentrators for handling intranet, data, voice and video traffic.

Sales, Marketing and Principal Customers. Mariner Networks supplies equipment to OEMs and end users through our offices in the United States, through Odetics Europe Limited in Europe and through Odetics Asia Pacific Pte. Ltd. in Asia. Mariner Networks sells its ATM interface module products through manufacturers representatives, both domestically and internationally. Mariner Network sells its Frame Relay and ATM access concentrator products through resellers, OEMs and direct to large end users. Mariner Networks' significant customers include IBM and other network equipment manufacturers.

Manufacturing and Materials. Mariner Networks' manufacturing processes consist primarily of final assembly and test, and became ISO certified in February 1997. Mariner Networks currently outsources circuit board assembly and some fabrication processes.

ITS Products--Odetics ITS, Inc.

Odetics ITS, our 93% owned subsidiary, provides advanced information, software and sensor technologies to public agencies, vehicle manufacturers and consumers that improve the efficiency and safety of surface transportation. By combining diverse expertise in transportation systems, software and information technology, Odetics ITS has developed the core competencies necessary to design and implement innovative advanced transportation management systems utilizing proprietary technology. As one of the two companies developing and maintaining the National ITS Architecture, Odetics ITS is well positioned to influence the future direction of the deployment of intelligent transportation systems in the United States.

Odetics ITS leverages its proprietary outdoor image processing algorithms and sensor technology to develop new ITS products. The Vantage vehicle detection system provides reliable detection and visual imagery under a broad range of weather and lighting conditions. The flexibility, ease of installation and low maintenance of Vantage represent an attractive alternative to inductive loops for controlling intersections. Our Auto VueTM product family provides an audible warning of lane departures and was jointly developed with Daimler-Chrysler, using proprietary technologies of both companies. We believe our initial Auto Vue product will be the first commercially available, image processing based lane departure warning system.

Sales, Marketing and Principal Customers. Odetics ITS markets and sells its transportation management systems and services directly to end user government agencies pursuant to negotiated contracts and individual purchase agreements. Sales of Odetics ITS' systems generally involve long lead times and require extensive specification development, evaluation and price negotiations.

Odetics ITS sells its Vantage vehicle detection systems primarily through indirect sales channels comprised of approximately thirty independent dealers in the United States and Canada who sell integrated solutions and related products to the traffic intersection market. Odetics ITS' agreements with these independent dealers

typically prohibit these dealers from distributing competitive video detection systems. Certain of these dealers have long-term supply arrangements with the government agencies in their territory for the supply of various products for the construction and renovation of traffic intersections. Odetics ITS' dealers generally maintain an inventory of demonstration traffic products including the Vantage vehicle detection system and sell directly to government agencies and installation contractors. These dealers are primarily responsible for sales, installation and support of the Vantage products. Odetics ITS holds technical training classes for its dealers and maintains a full time staff of customer support technicians to provide technical assistance when needed. Odetics ITS employs three Regional Sales Managers to support the dealer sales channel and one District Sales Manager who sells directly to end user agencies and contractors.

Odetics ITS intends to sell its Auto Vue products initially to heavy truck manufacturers through direct OEM sales. Sales of products to vehicle manufacturers generally require lengthy design, testing and qualification processes, which could take up to four years. We anticipate that Odetics ITS will have to rely to a large extent on the marketing activities of the vehicle manufacturers who will have the ultimate access to the consumers. Odetics ITS also currently maintains an independent sales agent to assist its marketing and sales activities to OEMs in Europe.

Manufacturing and Materials. Odetics ITS maintains a manufacturing facility in our principal facilities located in Anaheim, California for the manufacture of its Vantage products. The manufacturing activities of Odetics ITS consist primarily of testing and assembly. We intend to outsource the manufacture of our Auto Vue products and currently rely on one manufacturer for this product. This manufacturer has not, to date, commenced volume production of the Auto Vue product line.

Customer Support and Services

Each of our business units is responsible for its own customer support and service organizations. We provide warranty service for each of our product lines, as well as follow-up service and support, for which we typically charge separately. We also offer separate software maintenance agreements to our customers. We view customer support services as a critical competitive factor as well as a revenue source.

Backlog

Our backlog of unfulfilled firm orders was approximately \$22.0 million as of March 31, 1999 and approximately \$21.6 million as of March 31, 1998. Approximately 85% of our backlog at March 31, 1998 was recognized as revenues in fiscal 1999, and approximately 82% of our backlog at March 31, 1999 is expected to be recognized as revenues in fiscal 2000. Pursuant to the customary terms of our agreements with government contractors and other customers, customers can generally cancel or reschedule orders with little or no penalties. Lead times for the release of purchase orders depend upon the scheduling and forecasting practices of our individual customers, which also can affect the timing of the conversion of our backlog into revenues. For these reasons, among others, our backlog at a particular date may not be indicative of our future revenues.

Product Development

Each of our business units directs and staffs its own product development activities. Our businesses require substantial ongoing research and development expenditures and other product development activities. Our company-sponsored research and development costs and expenses were approximately \$7.7 million in fiscal 1997, \$9.3 million in fiscal 1998 and \$11.2 million in fiscal 1999.

We expect to continue to pursue significant product development programs and incur significant research and development expenditures in each of our business units.

Competition

Our business units face significant competition in each of their respective

targeted markets. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations.

The Broadcast division's primary competitors include Sony, Panasonic, Avid, Louth and Pro-bel. Sony and Panasonic are large, international suppliers of extensive professional quality products, including video tape libraries, for the broadcast television market. Louth and Probel principally provide automation control for video libraries and disk recorders. The Broadcast division's systems compete primarily in the arena of facility management and enterprise wide automation. We believe that the capability of our systems to integrate the broadcast station business systems acquisition processes, storage devices and presentation devices under a relational data base management system represents a unique and differentiable capability.

As Gyyr expands its product base from time-lapse VCRs to providing integrated security systems in CCTV and electronic access control, it will compete with a broader set of companies. Major Japanese competitors in Gyyr's legacy time-lapse VCR business include Panasonic, Toshiba, Sony, Sanyo, Mitsubishi and JVC. Gyyr also competes with large systems suppliers including Sensormatic, Honeywell, Pelco, Ultrak, Ademco and Vicon. In the sale of access control systems, Gyyr competes with Casi-Rusco, Checkpoint, Cardkey and Lenel. Gyyr competes based upon its strength in the integration of its various component products into systems that provide complete solutions through the use of advanced software and networking technologies.

The primary competition for the Communications division's network synchronization products is Datum, Inc. In the Communications division's space data recorder market, our principal competitors include Seakr, L-3 Communications and TRW. An additional competitive factor in this market is space flight experience; however, with the advent of solid state recorders, we may face new competitors in this market.

We believe that Mariner Networks does not currently face significant competition in the sale of its ATM interface module products. For its access concentrator products, Mariner Networks' principal competition includes both established networking vendors such as Cisco Systems and Nortel Networks, as well as numerous small market entrants.

Odetics ITS' competitors in the traffic management services market include ITS divisions of large corporations including Lockheed Martin and TRW, as well as many civil engineering firms. We believe that the principal bases of competition in the transportation management services market is the experience of key individuals and their relationships with government agencies, project management experience, name recognition and the ability to develop integrated software to link various aspects and components of the traffic management system. In the market for vehicle detection, we compete primarily with manufacturers and installers of inductive loops, with other manufacturers of video camera detection systems such as Image Sensing Systems, Inc. and the Peek business unit of Thermo Power, and to a lesser extent with other non-intrusive detection devices including microwave, infrared, ultrasonic and magnetic detectors. We are not aware of any other company that currently sells a vision based lane tracking safety device for in-vehicle applications.

The markets for our products and services are highly competitive and are characterized by rapidly changing technology and evolving standards. We believe that our ability to compete effectively depends on a number of factors, including the success and timing of our new product development, the compatibility of our products with a broad range of computing systems, product quality and performance, reliability, functionality, price, and service and technical support. Many of our current and prospective competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical, manufacturing, distribution and marketing resources than us. As a result, they may be able to adapt more quickly to new or emerging standards or technologies or to devote greater resources to the promotion and sale of their products.

Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. Our failure to provide services and develop and market products that compete successfully with those of other suppliers and consultants in the market would

have a material adverse effect on our business, financial condition and results of operations.

Intellectual Property and Proprietary Rights

Our ability to compete effectively depends in part on our ability to develop and maintain the proprietary aspects of our technology. Our policy is to obtain appropriate proprietary rights protection for any potentially significant new technology acquired or developed each of our business units. We currently hold a number of United States and foreign patents and trademarks, which will expire at various dates through 2015. We also have pending a number of United States and foreign patent applications relating to certain of our products; however, we cannot be certain that any patents will be granted pursuant to these applications.

In addition to patent laws, we rely on copyright and trade secret laws to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through agreements with customers and suppliers, proprietary information agreements with our employees and consultants, and other similar measures. We cannot be certain that we will be successful in protecting our proprietary rights. While we believe our patents, patent applications, software and other proprietary know-how have value, changing technology makes our future success dependent principally upon our employees' technical competence and creative skills for continuing innovation.

Litigation has been necessary in the past and may be necessary in the future to enforce our proprietary rights, to determine the validity and scope of the proprietary rights of others, or to defend us against claims of infringement or invalidity by others. An adverse outcome in such litigation or similar proceedings could subject us to significant liabilities to third parties, require disputed rights to be licensed from others or require us to cease marketing or using certain products, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses, and the diversion of management's resources, regardless of whether the claim is valid, could be significant and could have a material adverse effect on our business, financial condition and results of operations.

Employees

We refer to our employees as associates. As of June 15, 1999, we employed 546 associates, including 110 associates in general management, administration and finance; 73 associates in sales and marketing; 185 associates in product development; 129 associates in operations, manufacturing and quality; and 49 associates in customer service. None of our associates are represented by a labor union and we have not experienced a work stoppage.

We provide centralized support for human resources management for each of our operating divisions and subsidiaries. These services include recruiting, administration and outplacement.

Government Regulation

Our manufacturing operations are subject to various federal, state and local laws, including those restricting the discharge of materials into the environment. We are not involved in any pending or threatened proceedings which would require curtailment of our operations because of such regulations. We continually expend funds to assure that our facilities are in compliance with applicable environmental regulations. These expenditures have not, however, been significant in the past, and we do not expect any significant expenditures in the near future.

From time to time, a portion of our work relating to digital data recorders may constitute classified United States government information or may be used in classified programs of the United States Government. For this purpose, we possess relevant security clearances. Our affected facilities and operations are also subject to security regulations of the United States Government. We believe we are currently in full compliance with these regulations.

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report. You should consider the following risks carefully in addition to the other information contained in this report before purchasing the shares of our common stock. If any of the following risks actually occur, they could seriously harm our business, financial condition or results of operations. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Our Quarterly Operating Results Fluctuate as a Result of Many Factors. Our quarterly operating results have fluctuated and are likely to continue to fluctuate due to a number of factors, many of which are not within our control. Factors that could affect our revenues include the following:

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

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

Because of the factors listed above and other risks discussed in this report, our future operating results could be below the expectations of securities analysts and/or investors. If that happens, the trading price of our common stock could be adversely affected.

We Have Experienced Substantial Losses and Expect Future Losses. We have experienced net losses of \$20.1 million for the year ended March 31, 1999 and \$6.6 million for the year ended March 31, 1998. We may not 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. In addition, in order to implement our incubator strategy successfully, we expect to continue to make significant investments in each of our business units. As a result, we may continue to experience losses which could cause the market price of our common stock to

decline.

Our Incubator Strategy is Expensive and May Not Be Successful. We have initiated a business strategy called our incubator strategy which is expensive and highly risky. The goal of this strategy is to nurture and develop companies that can be spun-off to our stockholders. This strategy has in the past required us to make significant investments in our business units, both for research and development, and also to develop a separate infrastructure for each of our divisions, sufficient to allow the division to function as an independent public company. We expect to continue to invest heavily in the development of our divisions with the goal of conducting additional public offerings. We may not recognize the benefits of this investment for a significant period of time, if at all. Our ability to complete an initial public offering of any of our divisions and/or spin-off our interest to our stockholders will depend upon many factors, including:

- . the overall performance and results of operations of the particular business unit;
- . the potential market for our business unit;
- . our ability to assemble and retain a broad, qualified management team for the business unit;
- . our financial position and cash requirements;
- . the business unit's customer base and product line;
- . the current tax treatment of spin-off transactions and our ability to obtain favorable determination letters from the Internal Revenue Service; and
- . general economic and market conditions.

We may not be able to complete a successful initial public offering or spin-off of any of our divisions in the near future, or at all. Even if we do complete additional public offerings, we may decide not to spin-off a particular division, or to delay the spin-off until a later date.

We Must Keep Pace with Rapid Technological Change to Remain Competitive. Our target markets are in general characterized by the following factors:

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

We believe that we must continue to make substantial investments to support ongoing research and development in order to remain competitive. In particular, we will need to modify certain of our products to accommodate the anticipated deployment of digital television and the corresponding phase-out of analog transmissions. We will also have to continue to develop and introduce new products that incorporate the latest technological advancements in hardware, storage media, operating system software and applications software in response to evolving customer requirements. Our recent shift towards providing more software solutions may create additional challenges for us, particularly in our Broadcast division. Our business and results of operations could be adversely affected if we do not anticipate or respond adequately to technological developments or changing customer requirements.

Our Future Success Depends on the Successful Development and Market Acceptance of New Products. We believe our revenue growth and future operating results will depend on our ability to complete development of new products and enhancements, achieve broad market acceptance of these products and enhancements, and reduce our product costs. We may not be able to introduce any new products or any enhancements to our existing products on a timely basis, or at all. In addition, the introduction of any new products could

adversely affect the sales of our certain of our existing products.

Our future success will also depend in part on the success of several recently introduced products including:

- . Roswell, our automated facility management system for broadcast television stations;
- . Bowser, our visual asset manager;
- . Vortex, our high performance dome product;
- . Digi Scan Pro, our advanced digital multiplexer;
- . Vantage One, our single camera traffic detection system;
- . Auto Vue, our lane departure warning system; and
- . Dexter, our networking access device.

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

We currently anticipate that we will outsource the manufacture of our Auto Vue product line to a single manufacturer. This manufacturer may not be able to produce sufficient quantities of this product in a timely manner or at a reasonable cost, which could materially and adversely affect our ability to launch or gain market acceptance of Auto Vue.

We May Need Additional Capital in the Future and May Not Be Able to Secure Adequate Funds on Terms Acceptable to Us. We recently raised approximately \$7.3 million in a private placement in December 1998 and approximately \$2.0 million in March 1999. We may need to raise additional capital in the near future, either through additional bank borrowings or other debt or equity financings. Our capital requirements will depend on many factors, including:

- . market acceptance of our products;
- . increased research and development funding, and required investments in our divisions;
- . increased sales and marketing expenses;
- . potential acquisitions of businesses and product lines; and
- . additional working capital needs.

If our capital requirements are materially different from those currently planned, we may need additional capital sooner than anticipated. If additional funds are raised through the issuance of equity securities, the percentage ownership of our stockholders will be reduced and such securities may have rights, preferences and privileges senior to our common stock. Additional financing may not be available on favorable terms or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

We Have Significant International Sales and Are Subject to Risks Associated with Operating in International Markets. International product sales represented approximately 27% of our total net sales and contract revenues for

the fiscal year ended March 31, 1999, approximately 34% for the fiscal year ended

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March 31, 1998 and approximately 36% for the fiscal year ended March 31, 1997. International business operations are subject to inherent risks, including:

- . unexpected changes in regulatory requirements, tariffs and other trade barriers;
- . 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;
- . reduced protection for intellectual property rights in some countries;
- . currency fluctuations and restrictions; and
- . political and economic instability.

We believe that international sales will continue to represent a significant portion of our revenues, and that continued growth and profitability may require further expansion of our international operations. Our international sales are currently denominated primarily in U.S. dollars. As a result, an increase in the relative value of the dollar could make our products more expensive and potentially less price competitive in international markets. We do not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations.

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

Our Operating Results Have Been Adversely Affected by the Asian Economic Crisis. Our telecommunications products are sold principally to LGIC of Korea. As a result of economic instability in Asia, particularly in Korea, our sales in this region have declined over 60% in the current fiscal year and may continue to decline in the future. It is possible that these sales could be further impacted by the currency devaluations and related economic problems in this region.

We Need to Manage Growth and the Integration of Our Acquisitions. Over the past two years, we have significantly expanded our operations and made several substantial acquisitions of diverse businesses, including Intelligent Controls, Inc., International Media Integration Services, Ltd., Meyer Mohaddes Associates, Inc., Viggen Corporation and certain assets of the Transportation Systems business of Rockwell International. A key element of our business strategy involves expansion through the acquisition of complementary businesses, products and technologies. Acquisitions may require significant capital infusions and, in general, acquisitions also involve a number of special risks, including:

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

- . increased interest expense and amortization of acquired intangible assets.

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.

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Acquisitions, combined with the expansion of our business divisions and recent growth has placed and is expected to continue to place a significant strain on our resources. To accommodate this growth, we anticipate that we will be required to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. All of these updates will require substantial management effort. Our failure to manage growth and integrate our acquisitions successfully could adversely affect our business, financial condition and results of operations.

We Depend on Government Contracts and Subcontracts and Face Additional Risks Related to Fixed Price Contracts. Substantially all of the sales by our subsidiary, Odetics ITS, Inc., and a portion of our sales by our Communications division were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 16% of our total net sales and contract revenues for the year ended March 31, 1999. We expect revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

- .long purchase cycles;
- .competitive bidding and qualification requirements;
- .performance bond requirements;
- .delays in funding, budgetary constraints and cut-backs;
- .milestone requirements, and liquidated damage provisions for failure to meet contract milestones.

In addition, a large number of our government contracts are fixed price contracts. As a result, we may not be able to recover for any cost overruns. These fixed price contracts require us to estimate the total project cost based on preliminary projections of the project's requirements. The financial viability of any given project depends in large part on our ability to estimate these costs accurately and complete the project on a timely basis. In the event our costs on these projects exceed the fixed contractual amount, we will be required to bear the excess costs. These additional costs adversely affect our financial condition and results of operations. Moreover, certain of our government contracts are subject to termination or renegotiation at the convenience of the government, which could result in a large decline in our net sales in any given quarter. Our inability to address any of the foregoing concerns or the loss or renegotiation of any material government contract could seriously harm our business, financial condition and results of operations.

The Markets in Which We Operate Are Highly Competitive and Have Many More Established Competitors. We compete with numerous other companies in our target markets and we expect such competition to increase due to technological advancements, industry consolidations and reduced barriers to entry. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could seriously harm our business, financial condition and results of operations. Many of our competitors have far greater name recognition and greater financial, technological, marketing and customer service resources than we do. This may allow them to respond more quickly to new or emerging technologies and changes in customer requirements. It may also allow them to devote greater resources to the development, promotion, sale and support of their products than we can. Recent consolidations of end users, distributors and manufacturers in our target markets have exacerbated this problem. As a result of the foregoing factors, we may not be able to compete effectively in our target markets and competitive pressures could adversely affect our business, financial condition and results of operations.

We Cannot Be Certain of Our Ability to Attract and Retain Key Personnel and We Do Not Have Employment Agreements with Any Key Personnel. Due to the specialized nature of our business, we are highly dependent on the continued service of our executive officers and other key management, engineering and technical personnel, particularly Joel Slutzky, our Chief Executive Officer and Chairman of the Board, and Gregory A. Miner, our Chief Operating Officer and Chief Financial Officer. We do not have any employment contracts with any of our officers or key employees. The loss of any of these persons would seriously harm our development and marketing efforts, and would adversely affect our business. Our success will also depend in

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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 upon our business, financial condition and results of operations.

We May Not be Able to Adequately Protect or Enforce Our Intellectual Property Rights. If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors could be able to access our proprietary technology and our business, financial condition and results of operations will likely be seriously harmed. We currently attempt to protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies or solutions. Our competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. As a result, we may not be able to protect our proprietary rights adequately in the United States or abroad.

We have engaged in litigation in the past and litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on terms acceptable to us, or at all. Any of these results could adversely affect on our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses, and the diversion of management resources, regardless of whether the claim is valid, could be significant and could seriously harm our business, financial condition and results of operations.

The Trading Price of Our Common Stock Is Volatile. The trading price of our common stock has been subject to wide fluctuations in the past, decreasing from \$20.375 in October 1997 to \$4.25 in October 1998. We may not be able to increase or sustain the current market price of our common stock in the future. The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

- . quarterly variations in operating results;
- . shortages announced by suppliers
- . announcements of technological innovations or new products;
- . acquisitions or businesses, products or technologies;
- . changes in pending litigation;
- . our ability to spin-off any division;
- . applications or product enhancements by us or by our competitors; and

. changes in financial estimates by securities analysts.

The stock market in general has recently experienced volatility which has particularly affected the market prices of equity securities of many high technology companies. This volatility has often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock.

We Are Controlled by Certain of Our Officers and Directors. As of March 31, 1999, our officers and directors beneficially owned approximately 30.5% 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

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will be able to significantly influence the election of our directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how our other stockholders may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in our management or change in control and may adversely affect the voting or other rights of other holders of common stock.

Our Stock Structure and Certain Anti-Takeover Provisions May Effect the Price of Our Common Stock. Certain provisions of our certificate of incorporation and our stockholder rights plan could make it difficult for a third party to acquire us, even though an acquisition might be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. Our Class A common stock entitles the holder to one-tenth of one vote per share and our Class B common stock entitles the holder to one vote per share. In addition, holders of the Class B common stock are presently entitled to elect six of our nine directors. The disparity in the voting rights between our common stock, as well as our insiders' significant ownership of the Class B common stock, could discourage a proxy contest or make it more difficult for a third party to effect a change in our management and control. In addition, our Board of Directors is authorized to issue, without stockholder approval, up to 2,000,000 shares of preferred stock with voting, conversion and other rights and preferences superior to those of our common stock, as well as additional shares of Class B common stock. Our future issuance of preferred stock or Class B common stock could be used to discourage an unsolicited acquisition proposal.

In March 1998, we adopted a stockholder rights plan and declared a dividend of preferred stock purchase rights to our stockholders. In the event a third party acquires more than 15% of the outstanding voting control of 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 the stockholder rights plan often delays or makes a merger, tender offer or proxy contest more difficult.

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

disrupting our business or without incurring significant expense. Our failure to address these issues on a timely basis or at all could result in lost revenues, increased operating costs, the loss of customers and other business interruptions, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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ITEM 2. PROPERTIES.

Our headquarters and principal operations are located in Anaheim, California. In 1984, we purchased and renovated a three building complex containing approximately 250,000 square feet situated on approximately 14 acres adjacent to the Interstate 5 freeway, one block from Disneyland. Our facilities house our corporate and administrative offices (approximately 43,000 dedicated square feet), as well as the operations of Gyr and the Broadcast division, (approximately 87,000 dedicated square feet), the Communications division (approximately 67,000 dedicated square feet), Mariner Networks (approximately 8,000 dedicated square feet) and Odetics ITS (approximately 25,000 dedicated square feet).

Our Communications division leases approximately 4,500 square feet of space in a manufacturing facility located on 0.62 acre in El Paso, Texas. Our Broadcast division leases approximately 5,000 square feet in Austin, Texas to manufacture certain product families. Odetics Europe Limited's offices are located in leased space near London, England. Odetics Asia Pacific Pte. Ltd. offices are located in leased space in Singapore.

We currently operate a single shift in each of our manufacturing and assembly facilities, and we believe that our facilities are adequate for our current needs and for possible future growth. We may, however, elect to expand or relocate its offices and facilities in the future.

ITEM 3. LEGAL PROCEEDINGS.

We brought an action against Storage Technology Corporation, commonly known as StorageTek, in the Eastern District Court of Virginia alleging that StorageTek had infringed our patent covering robotics tape cassette handling systems (United States Patent No. 4,779,151). StorageTek counterclaimed alleging that we infringed several of StorageTek's patents. Prior to trial, the court dismissed two of the infringement claims against us and the third claim was dismissed upon resolution between the parties. In January 1996, a jury determined that the patent claims were not infringed under the doctrine of equivalents based upon a claim construction defined by the court prior to the trial. That jury also concluded that our patent was not invalid. In June 1997, the United States Court of Appeals for the Federal Circuit vacated the lower court's claim construction and findings of non-infringement of our patent. The appellate court remanded the case for consideration of infringement under a proper claim construction. In August 1997, the appellate court denied a petition for rehearing requested by StorageTek. The case was returned to the Federal District Court for retrial, and in March 1998, a jury awarded us damages in the amount of \$70.6 million. In June 1998, the U.S. District Court for the Eastern District of Virginia granted an injunction against StorageTek enjoining StorageTek from making, selling or using any infringing devices, including the ACS4400, PowderHorn, Wolfcreek and Genesis automated tape library systems that include a pass through port. In June 1998, the U.S. District Court issued an order requesting the parties to brief the issues of whether StorageTek's motion for judgment as a matter of law should have been granted, and whether the injunction previously ordered by the court against StorageTek should be stayed pending appeal. After filing hearings, the trial court vacated its own injunction and granted StorageTek's motion for judgment as a matter of law to vacate the jury trial result and to find StorageTek not infringing. We have appealed these and other court rulings. The defendants also cross-appealed certain other court rulings. The U.S. Court of Appeals for the Federal Circuit heard final arguments on April 12, 1999. A

decision from the U.S. Court of Appeals is pending.

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

In connection with our special meeting of stockholders held on March 11, 1999, the following proxies were tabulated representing 4,268,575 shares of our Class A common stock or approximately 56% of total Class A shares outstanding, and 833,329 of Class B common stock, or approximately 79% of the total outstanding Class B shares outstanding, voted in the following manner:

Proposal I: To approve the private placement and issuance of 308,528 shares of our Class A common stock to certain of our officers and directors at a purchase price per share of \$6.625, as required by the rules of the Nasdaq Stock Market.

	Class A Common Stock (1/10 vote/share)	Class B Common Stock (one vote/share)
Total Represented.....	4,268,575	833,329
For.....	3,349,681	507,852
Against.....	378,225	17,989
Total Voting.....	3,727,906	525,841
Abstain/Non-Vote.....	540,669	307,488

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our Class A common stock and Class B common stock are traded on the Nasdaq National Market under the symbols "ODETA" and "ODETB," respectively. The following table sets forth for the fiscal periods indicated the high and low sales prices for the Class A common stock and Class B common stock as reported by the Nasdaq National Market:

	Class A Common Stock		Class B Common Stock	
	High	Low	High	Low
Fiscal Year Ended March 31, 1998				
First Quarter.....	\$14 1/2	\$ 9 3/4	\$14 1/2	\$10 1/2
Second Quarter.....	19 1/4	12 1/4	19 1/4	12
Third Quarter.....	21 3/4	4 5/8	21	4 1/2
Fourth Quarter.....	9 1/4	4	10 1/16	4 1/4
Fiscal Year Ended March 31, 1999				
First Quarter.....	17 1/8	8 3/8	17	9
Second Quarter.....	13 5/8	4 5/8	14 1/4	5
Third Quarter.....	8 1/4	4 1/16	9 5/8	4
Fourth Quarter.....	10 5/8	7 1/16	10 3/4	7 3/8

As of June 24, 1999, we had 714 holders of record of Class A common stock and 155 holders of record of Class B common stock according to information furnished by our transfer agent.

Dividend Policy

Pursuant to the terms of our Loan and Security Agreement with our bank, we

are prohibited from paying any dividends on our common stock without the bank's consent. We have never paid or declared cash dividends on either class of our common stock, and have no current plans to pay such dividends in the foreseeable future. We currently intend to retain any earnings for working capital and general corporate purposes. The payment of any future dividends will be at the discretion of our Board of Directors, and will depend upon a number of factors, including, but not limited to, future earnings, the success of our business, activities, its capital requirements, our general financial condition and future prospects, general business conditions, the consent of our principal lender and such other factors as the Board may deem relevant.

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Recent Sales of Unregistered Securities

During the last fiscal year, we have sold and issued the following unregistered securities:

1. In September 1998, in connection with our acquisition of International Media Integration Systems Limited, we issued an aggregate of 173,214 shares of our Class A common stock to the four former shareholders of International Media in exchange for their holdings in International Media.

2. In October 1998, in connection with the acquisition by Odetics ITS of Meyer, Mohaddes Associates, Inc., we issued an aggregate of 55,245 shares of our Class A common stock to the four former shareholders of Meyer, Mohaddes in exchange for their shares of common stock of Meyer, Mohaddes. We also issued to these shareholders an aggregate of 457,000 shares of common stock of Odetics ITS, which was later reduced to 432,100 shares after giving effect to the purchase price adjustments set forth in the merger agreement. Pursuant to the terms of the merger agreement, in April 1999, we also issued an aggregate of 25,740 additional shares to these shareholders as a penalty for not completing the initial public offering of Odetics ITS.

3. In December 1998, we issued an aggregate of 1,191,323 shares of our Class A common stock to 17 accredited investors at a purchase price of \$6.625 per share in a private placement. In March 1999, we issued an aggregate of 308,528 shares of our Class A common stock to eight of our officers and directors in a private placement at a purchase price of \$6.625 per share. Cruttenden Roth Incorporated acted as placement agent in connection with both of these offerings.

4. In April 1999, we issued an aggregate of 27,603 shares of our Class A common stock to Viggen Corporation, in connection with our acquisition of certain assets of Viggen Corporation.

The sale and issuance of securities set forth above were deemed to be exempt from registration under the Securities Act by virtue of Section 4(2) thereof. The recipients of the securities in each of the transactions set forth in above represented their intention to acquire such securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments used in such transactions. Except as indicated above, there were no underwriters, brokers or finders employed in connection with any of the foregoing transactions.

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ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data with respect to our consolidated statement of operations for each of the five fiscal years in the period ended March 31, 1999 and the consolidated balance sheet data at March 31, 1995, 1996, 1997, 1998 and 1999 are derived from the audited consolidated financial statements of Odetics. The consolidated financial statements for the fiscal years ended March 31, 1995 and 1996 and our consolidated balance sheet at March 31, 1997 are not included in this report. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our Consolidated Financial Statements and the related notes thereto included elsewhere in this report.

Fiscal Year Ended March 31,

1995	1996	1997	1998	1999
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(in thousands, except per share data)

Consolidated Statement of
Operations Data:

Net sales.....	\$51,824	\$65,056	\$71,748	\$ 79,552	\$ 70,042
Contract revenues.....	13,280	10,161	9,032	10,284	13,331
Total net sales and contract revenues.....	65,104	75,217	80,780	89,836	83,373
Cost of sales.....	34,225	44,535	48,507	55,227	49,816
Cost of contract revenues.....	6,633	4,374	4,907	6,430	9,007
Selling, general and administrative expense.....	16,199	15,620	19,831	26,010	31,670
Research and development expenses.....	6,061	5,242	7,734	9,271	11,191
In process research and development.....	--	--	--	2,106	--
Nonrecurring charge.....	767	--	--	1,716	--
Interest expense, net.....	682	386	183	617	1,807
Income (loss) from continuing operations before income taxes.....	537	5,060	(382)	(11,541)	(20,118)
Income taxes (benefit).....	177	1,418	(181)	(2,858)	--
Income (loss) from continuing operations.....	360	3,642	(201)	(8,683)	(20,118)
Income (loss) from discontinued operations, net of income taxes.....	(5,038)	(1,189)	3,931	2,089	--
Net income (loss).....	\$ (4,678)	\$ 2,453	\$ 3,730	\$ (6,594)	\$ (20,118)
Diluted earnings (loss) per share(1):					
Continuing operations.....	\$ 0.06	\$ 0.59	\$ (0.03)	\$ (1.26)	\$ (2.57)
Discontinued operations.....	(0.86)	(0.19)	0.62	0.31	--
Earnings (loss) per share.....	\$ (0.80)	\$ 0.40	\$ 0.59	\$ (0.95)	\$ (2.57)
Shares used in calculating di- luted earnings (loss) per share.....	5,872	6,179	6,299	6,912	7,820

(1) The earnings (loss) per share amounts prior to fiscal 1998 have been restated as required to comply with Statement of Financial Accounting Standards No. 128 Earnings per Share. For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements.

Fiscal Year Ended March 31,

1995	1996	1997	1998	1999
------	------	------	------	------

(in thousands)

Consolidated Balance Sheet Data:

Working capital.....	\$24,892	\$20,610	\$21,903	\$19,996	\$ 15,216
Total assets.....	70,098	73,013	85,805	88,790	81,355
Long-term debt (less current portion).....	25,757	22,019	11,860	21,000	19,962
Retained earnings (deficit).....	6,027	8,481	12,211	(3,795)	(23,913)
Total stockholders' equity.....	27,736	30,985	51,828	38,580	36,323

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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:

	As of March 31,		
	1997	1998	1999
Net sales.....	88.8%	88.6%	84.0%
Contract revenues.....	11.2	11.4	16.0
Total net sales and contract revenues.....	100.0%	100.0%	100.0%
Cost of sales.....	60.0	61.4	59.7
Cost of contract revenues.....	6.1	7.2	10.8
Selling, general and administrative expenses.....	24.5	29.0	38.0
Research and development expenses.....	9.6	10.3	13.4
In process research and development.....	--	2.3	--
Nonrecurring charge.....	--	1.9	--
Interest expense, net.....	0.2	0.7	2.2
Income (loss) from continuing operations before income taxes.....	(0.4)	(12.8)	(24.1)
Income taxes (benefit).....	(0.2)	(3.2)	--
Income (loss) from continuing operations.....	(0.2)	(9.6)	(24.1)
Income (loss) from discontinued operations, net of income taxes.....	4.8	2.3	--
Net income (loss).....	4.6%	(7.3)%	(24.1)%
	=====	=====	=====

General. On October 31, 1997, we completed the spin-off of our 82.9% interest in ATL by distributing our 8,005,000 shares of Class A common stock to our stockholders of record on October 31, 1997. In connection with the spin-off, we have restated our financial statements to reflect continuing and discontinued operations. Discontinued operations reflect our interest in the operations of ATL for all periods presented.

Net Sales and Contract Revenues. Net sales consist of sales of products and services to commercial customers. Contract revenues consist of revenues derived from contracts with state, county and municipal agencies for intelligent transportation systems projects and from contracts with agencies of the United States Government and foreign entities for space recorders used for geographical information systems. Total net sales and contract revenues decreased 7.2% to \$83.4 million for the fiscal year ended March 31, 1999 ("fiscal 1999") compared to \$89.8 million for the fiscal year ended March 31, 1998 ("fiscal 1998"), and increased 11.2% in fiscal 1998 from \$80.8 million for the fiscal year ended March 31, 1997 ("fiscal 1997").

Net Sales. Net sales decreased 12.0% to \$70.0 million in fiscal 1999 compared to \$79.6 million in fiscal 1998 as a result of a 10.2% decrease in Gyyr sales and a 58.6% decrease in sales in the Communications division. The decrease in Gyyr sales reflects reduced purchases by certain of its OEM customers who sell to the banking industry segment of the electronic security market. This market segment has undergone substantial consolidation in the current fiscal year that has negatively impacted demand for certain of our products including video multiplexers and time lapse video tape decks. The decrease in sales in the Communications division reflects a decrease in sales of timing and synchronization products to LGIC of Korea, a significant customer. The decline in sales to this customer largely reflects adverse economic conditions in Asia.

Sales by Odetics ITS partially offset the decline in sales of Gyyr and the

Communications division, reflecting an increase of approximately 360.0% in fiscal 1999 compared to the previous year. This increase was primarily the result of increasing market acceptance of our Vantage line of video based traffic intersection control

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systems. We also experienced a 140% increase in Mariner Networks' sales in fiscal 1999 compared to fiscal 1998 primarily due to increased sales of network interface products. Sales of Mariner Networks products represented 2.0% of our total net sales and contract revenues in fiscal 1998 compared to 6.0% in fiscal 1999. During fiscal 1999, Broadcast sales were relatively flat compared to fiscal 1998.

Net sales increased 10.9% to \$79.6 million in fiscal 1998 compared to \$71.7 million in fiscal 1997 primarily as a result of an 18% increase in sales by Gyyr and a 79% increase in sales of our timing and synchronization products sold by the Communications division to LGIC of Korea, a major telecommunications customer. While sales in fiscal 1998 to this customer increased as compared to fiscal 1997, we experienced a significant decline in fourth quarter sales to this customer largely due to the economic crisis in Asia. During fiscal 1998, Gyyr increased sales of electronic security equipment and service revenue. We completed the acquisition of Intelligent Controls in fiscal 1998, which also contributed to the increased sales. The sales increases in Gyyr and in the Communications division were offset by declines in sales in our Broadcast division, which was largely due to delays in delivery of our Roswell facility management system.

Contract Revenues. Contract revenues increased 29.6% to \$13.3 million in fiscal 1999 compared to \$10.3 million in fiscal 1998, and increased 13.9% in fiscal 1998 from \$9.0 million in fiscal 1997. In October 1998, we acquired Meyer, Mohaddes Associates, Inc. in exchange for an aggregate of 432,100 shares of the common stock of Odetics ITS and an aggregate of 80,985 shares of Class A common stock of Odetics. Approximately one-half of the increase in contract revenues in fiscal 1999 resulted from the acquisition of Meyer Mohaddes. The balance of the increase in contract revenues in fiscal 1999 represents increased contract volume in our intelligent transportation systems business. In the first quarter of fiscal 1998, we acquired certain assets of the Transportation Systems business of Rockwell International, which were consolidated into our Odetics ITS business. The increase in contract revenues in fiscal 1998 reflects the revenue contribution from Odetics ITS. The increases in Odetics ITS' contract revenues in both fiscal 1999 and fiscal 1998 were offset by continued declines in contract revenues derived from the sale of space recorders and related service and equipment to agencies of the United States Government. We have focused our recent contract procurement efforts on commercial markets and the markets for ITS products and services.

Gross Profit. Total gross profit as a percent of net sales and contract revenues decreased to 29.5% in fiscal 1999, compared to 31.4% in fiscal 1998, and 33.9% in fiscal 1997. The decrease in our fiscal 1999 compared to fiscal 1998 reflects decreased gross profit performance in our Broadcast division and in our Communications division. The decrease in gross profit in our Broadcast division resulted from an unfavorable sales mix of low margin product sales in the fourth quarter of fiscal 1999, in addition to an increase in charges for warranty liabilities that are included in cost of sales. Gross profit in the Communications division decreased from 46.5% of sales in fiscal 1998 to 36.7% of sales in fiscal 1999, as a result of the decline in sales to LGIC of Korea.

The decrease in fiscal 1998 compared to fiscal 1997 reflects decreased gross profit performance in our Broadcast division on an unfavorable sales mix and higher unabsorbed manufacturing overhead, which was partially offset by improved gross profit performance in Gyyr and the Communications division due to changes in product mix toward products with higher margins, improved efficiencies associated with increased sales volume, and improved margin contribution from the acquisition of Intelligent Controls in October 1997. The decrease in fiscal 1998 also reflects a lower gross profit contribution on contract revenues from Odetics ITS compared to other contract revenues during fiscal 1997.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 21.8% to \$31.7 million (or 38.0% of total net sales and contract revenues) in fiscal 1999 compared to \$26.0 million (or 29.0% of total net sales and contract revenues) in fiscal 1998, and increased 31.2% in fiscal 1998 compared to \$19.8 million (or 24.5% of total net sales

and contract revenues) in fiscal 1997. During fiscal 1999, we increased sales and marketing expenditures \$3.9 million or 20.7% over fiscal 1998 levels. Sales and marketing expense increased in our Odetics ITS, Gyyr, Broadcast and Mariner Networks businesses in fiscal 1999. Approximately \$514,000 of the increase in fiscal 1999 was attributable to Meyer Mohaddes, which was acquired by Odetics ITS in October 1998. The other increases in spending were incurred to support planned growth in sales and market

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share and were incurred principally in the areas of labor and benefits, sales commissions, advertising and promotions, and charges related to support increased presence in international markets, particularly Europe. These increases were partially offset by decreased spending in our Communications division, which enforced general spending cutbacks in response to the sharp reduction in sales in fiscal 1999 accompanying the Asian economic crisis. General and administrative expense increased \$1.2 million in fiscal 1999 compared to fiscal 1998 primarily as a result of the write off of deferred costs associated with our delay in the initial public offering of Odetics ITS, an increase in goodwill amortization as a result of the acquisitions of Meyer Mohaddes Associates and International Media Integration Services, and the administrative infrastructure that accompanied the acquisition of Meyer Mohaddes Associates.

In fiscal 1998, we experienced increased costs across all of our business units for sales, marketing and administrative activities as a function of our planned growth compared to fiscal 1997. These expenses included labor costs, sales commissions on increased sales volume, advertising and promotion to support new product roll-out, and costs related to international expansion, particularly in Europe and Asia. In addition, selling, general and administrative expense increased in absolute dollars in fiscal 1998 related to the acquisition of Intelligent Controls and the acquisition of certain assets of the Transportation Systems business of Rockwell International.

Research and Development Expense. Research and development expense increased 20.7% to \$11.2 million (or 13.4% of total net sales and contract revenues) in fiscal 1999 compared to \$9.3 million (or 10.3% of total net sales and contract revenues) in fiscal 1998, and increased 19.9% in fiscal 1998 compared to \$7.7 million (or 9.6% of total net sales and contract revenues) in fiscal 1997. For competitive reasons, we closely guard the confidentiality of specific development projects. The increase in research and development expense in fiscal 1999 compared to fiscal 1998 principally reflects increased product development activity in Gyyr, Mariner Networks and our Communications division. Most of these increases represent engineering labor and related benefits, prototype material and consulting fees. Gyyr completed an aggressive product development schedule during fiscal 1999 intended to broaden its product family beyond time-lapse video recorders. During fiscal 1999, Gyyr introduced its Vortex family of domes for facility monitoring, expanded its video multiplexer product line, and launched a new Internet based security product called Tango. Mariner Networks added substantial investment in the development of Dexter, a broadband communications interface product expected to be in beta test in the first quarter of fiscal 2000. Mariner Networks also invested development resources in FRAIM, an extension to its family of products offering Frame Relay to ATM communications. The Communications division also experienced increased development costs related to its high performance G.P.S. based synchronization product.

Nonrecurring Charge. In March 1998, we recorded a nonrecurring charge of \$1.7 million. This charge reflects severance costs related to retirement of certain of our founders and officers, and to a lesser extent, costs incurred to terminate a joint venture relationship in China.

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

	Year Ended March 31,		
	1997	1998	1999
Interest Expense.....	\$1,890	\$1,609	\$1,928

Interest Income.....	1,707	992	121
	-----	-----	-----
Interest Expense, Net.....	\$ 183	\$ 617	\$1,807
	-----	-----	-----

Interest expense increased 19.8% in fiscal 1999 compared to fiscal 1998, and decreased 14.9% in fiscal 1998 compared to fiscal 1997. The increase in fiscal 1999 represents increased average outstanding borrowings on our line of credit to fund negative operating cash flow. Interest income was derived primarily from a note receivable due from ATL, our former subsidiary. The reduction in interest income in each of the last three fiscal years reflects principal reduction on this note, which pursuant to its terms was payable in sixteen quarterly installments by ATL. ATL repaid in full the outstanding balance of its note receivable in July 1998.

In-Process Research and Development. In the fourth quarter of fiscal 1998, we completed the purchase price allocation related to our acquisition of Intelligent Controls and determined that \$2.1 million of the purchase price was attributable to the value of research and development activities in process at the date of acquisition. In accordance with the provisions of FASB Statement No. 2, "Accounting for Research and Development Costs," we recorded a charge in fiscal 1998 for this in-process research and development.

Income Taxes. We have not provided income tax benefit for the losses incurred in fiscal 1999 due to the uncertainty as to the ultimate realization of the benefit. We provided for a tax benefit from continuing operations at an effective rate of (24.8)% in fiscal 1998 and (47.4%) in fiscal 1997. The tax benefit recorded in 1998 was less than the statutory rate because no benefit was recorded in connection with \$2.1 million write-off of purchased research and development expenses associated with the acquisition of Intelligent Controls, a reduction in the benefit of general business credits on total expense, and foreign losses recorded in Singapore for which no tax benefit was recognized.

In 1997, we entered into a Tax Allocation Agreement with ATL effective April 1, 1996 pursuant to which ATL made payments to us, or we made payments to ATL, as appropriate, in an amount equal to the taxes attributable to the operations of Odetics on its consolidated federal, and consolidated or combined state income tax returns. In addition, the Tax Allocation Agreement provided that members of our consolidated group generating tax losses after April 1, 1996 will be paid by other members of the group that utilize such tax losses to reduce such other members' tax liability. Accordingly, the tax provisions for ATL was recorded as a component of the income (loss) from discontinued operations at a 40% effective tax rate for each fiscal year. The Tax Allocation Agreement was effectively canceled upon completion of the spin-out of ATL on October 31, 1997.

Income (Loss) from Continuing Operations. In connection with the spin-off of our 82.9% ownership interest in ATL on October 31, 1997, we restated our financial statements to present the results of operations of ATL as discontinued operations for all periods presented. Income (loss) from continuing operations reflects our continuing operations, including Gyyr and the Broadcast division; the Communications division and Mariner Networks; and Odetics ITS.

Liquidity and Capital Resources

Our incubator strategy is characterized by high levels of investment of operating cash flow to support the development of our businesses as potential spin-off opportunities. During fiscal 1999, we financed our cash requirements primarily through equity offerings, repayment of amounts due from ATL, equipment financings and decreases in net working capital items excluding cash. We incurred negative cash flow from operating activities of \$12.1 million in fiscal 1999, principally as a result of financing net operating losses of \$20.1 million incurred during the year. The impact of the net operating losses on operating cash flow during the year was partially mitigated by inventory reductions of \$4.8 million and noncash expenses for depreciation and amortization of \$5.2 million. A portion of the negative cash flow from operating activities was also financed by the receipt of \$10.0 million on a note receivable due us from ATL, our former subsidiary, which note was paid in full in July 1998. In May 1999, we entered into an agreement with CIBC World

Markets to provide for general investment banking advisory services.

We currently have a \$17.0 line of credit with Transamerica Business Credit providing for borrowings at their prime rate plus 2.0% (9.75% at March 31, 1999). This relationship succeeded our previous relationship with Imperial Bank. Our borrowings under our line of credit with Transamerica Business Credit are secured by substantially all of our assets.

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On December 18, 1998, we completed a private placement of 1,191,323 of our Class A common stock to raise \$7.3 million in net proceeds. On March 12, 1997, following stockholder approval, we sold an additional 308,528 shares of our Class A common stock in a private placement for approximately \$2.0 million in net proceeds. We used the net proceeds from these offerings for general working capital purposes.

We anticipate that the cash flow available from our line of credit, and proceeds from the equity offerings of our common stock, in addition to the common stock of any companies that are ultimately spun-off from Odetics, will be sufficient for us to execute our current operating plans and meet our obligations on a timely basis for at least the next twelve months.

Year 2000 Compliance

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

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

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

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

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

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successful or that our results of operations would not be materially and adversely affected by the delays and inefficiencies inherent in conducting operations in an alternative manner.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

We are exposed to changes in interest rates primarily from our long-term debt arrangements. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate changes.

The following table provides information about our debt obligations that are sensitive to changes in interest rates.

	March 31, Expected maturity date							
	2000	2001	2002	2003	2004	Thereafter	Total	Fair value
	(dollars in thousands)							
Long-term Debt:								
Fixed Rate.....	\$2,074	\$ 2,066	\$2,221	\$1,813	\$1,666	\$1,199	\$11,039	\$ 11,039
Average interest rate.....	8.95%	9.02%	9.14%	9.29%	9.36%	9.36%	9.09%	
Variable Rate.....	--	\$10,997	--	--	--	--	\$10,997	\$ 10,997
Average interest rate.....		9.75%					9.75%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data required by Regulation S-X are included in this Form 10-K commencing on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

(a) Identification of Directors. The information under the heading "Election of Directors," appearing in our proxy statement, is incorporated herein by reference.

(b) Identification of Executive Officers. The information under the heading "Executive Compensation and Other Information," appearing in our proxy statement, is incorporated herein by reference.

(c) Compliance with Section 16(a) of the Exchange Act. The information under the heading "Executive Compensation and Other Information," appearing in our proxy statement, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information under the heading "Executive Compensation," appearing in our proxy statement, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information under the heading "Principal Stockholders and Common Stock Ownership of Certain Beneficial Owners and Management," appearing in our proxy statement, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information under the heading "Certain Transactions," appearing in our proxy statement, is incorporated herein by reference.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) Documents filed as part of this report:

1. Financial Statements. The following financial statements of Odetics are included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below:

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Index to Consolidated Financial Statements.....	F-1
Report of Independent Auditors.....	F-2
Consolidated Balance Sheets as of March 31, 1999 and 1998.....	F-3
Consolidated Statements of Operations for the Years ended March 31, 1999, 1998 and 1997.....	F-5
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2. Financial Statement Schedules.

Schedule II -- Valuation and Qualifying Accounts.....	S-1
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All other schedules have been omitted because they are not required or the required information is included in Odetics' Consolidated Financial Statements and Notes thereto.

3. Exhibits.

- 3.1 Certificate of Incorporation of Odetics, as amended (incorporated by reference to Exhibit 19.2 to Odetics' Quarterly Report on Form 10-Q for the quarter ended September 30, 1987).
- 3.2 Bylaws of Odetics, as amended (incorporated by reference to Exhibit 4.2 to Odetics' Registration Statement on Form S-1 (Reg. No. 033-67932) as filed with the SEC on July 6, 1993).
- 4.1 Specimen of Class A Common Stock and Class B Common Stock certificates (incorporated by reference to Exhibit 4.3 to Amendment No. 1 to Odetics' Registration Statement on Form S-1 (Reg. No. 033-67932) as filed with the SEC on September 30, 1993).
- 4.2 Form of rights certificate for Odetics' preferred stock purchase rights (incorporated by reference to Exhibit A of Exhibit 4 to Odetics' Current Report on Form 8-K as filed with the SEC on May 1, 1998).
- 10.1 Profit Sharing Plan and Trust (incorporated by reference to Exhibit 10.3 to Odetics' Amendment No. 2 to the Registration Statement on Form S-8 (Reg. No. 002-98656) as filed with the SEC on May 5, 1988).

- 10.2 Form of Executive Deferral Plan between Odetics and certain employees of Odetics (incorporated by reference to Exhibit 10.4 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1988).
- 10.3 Loan and Security Agreement dated December 28, 1998 among Transamerica Business Credit Corporation, Odetics and the subsidiaries of Odetics, and Schedule to Loan Agreement.
- 10.4 Amendment to Loan Agreement dated December 28, 1998 among Transamerica Business Credit Corporation, Odetics and the subsidiaries of Odetics, and related Schedule to Loan Agreement dated December 28, 1998.

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- 10.5 Revolving Credit Note dated December 28, 1998 payable to Transamerica Business Credit Corporation in the original principal amount of \$17,000,000.
- 10.6 Letter of Credit Agreement dated December 28, 1998 among Transamerica Business Credit Corporation, Odetics and the subsidiaries of Odetics.
- 10.7 Security Agreement in Copyrighted Works dated December 28, 1998 between Transamerica Business Credit Corporation and Odetics.
- 10.8 Patent and Trademark Security Agreement dated December 28, 1998 between Transamerica Business Credit Corporation and Odetics.
- 10.9 Cross-Corporate Continuing Guaranty dated December 28, 1998 among Transamerica Business Credit Corporation, Odetics and the subsidiaries of Odetics.
- 10.10 Form of Indemnity Agreement entered into by Odetics and certain of its officers and directors (incorporated by reference to Exhibit 19.4 to Odetics' Quarterly Report on Form 10-Q for the quarter ended September 30, 1988).
- 10.11 Schedule of officers and directors covered by Indemnity Agreement (incorporated by reference to Exhibit 10.9.2 to Amendment No. 1 to Odetics' Registration Statement on Form S-1 (Reg. No. 033-67932) as filed with the SEC on July 6, 1993).
- 10.12 Amendment Nos. 3 and 4 to the Profit Sharing Plan and Trust (incorporated by reference to Exhibits 4.3.1 and 4.3.2, respectively, to Amendment No. 3 to Odetics' Registration Statement on Form S-3 (Reg.No. 002-86220) as filed with the SEC on June 13, 1990).
- 10.13 Separation and Distribution Agreement dated March 1, 1997 between Odetics and ATL (incorporated by reference to Exhibit 10.13 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.14 Tax Allocation Agreement dated March 1, 1997 between Odetics and ATL (incorporated by reference to Exhibit 10.14 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.15 Services Agreement dated March 21, 1997 between Odetics and ATL (incorporated by reference to Exhibit 10.15 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.16 Promissory Note dated April 1, 1997 between Odetics and ATL (incorporated by reference to Exhibit 10.16 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.17 1997 Stock Incentive Plan of Odetics (incorporated by reference to Exhibit 99.1 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.18 Form of Notice of Grant of Stock Option (incorporated by reference to Exhibit 99.2 to Odetics' Registration Statement on Form S-8 (File No.

333-44907) as filed with the SEC on January 26, 1998).

- 10.19 Form of Stock Option Agreement (incorporated by reference to Exhibit 99.3 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.20 Form of Addendum to Stock Option Agreement--Involuntary Termination Following Corporate Transaction/Change in Control (incorporated by reference to Exhibit 99.4 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.21 Form of Addendum to Stock Option Agreement--Limited Stock Appreciation Rights (incorporated by reference to Exhibit 99.5 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).

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- 10.23 Form of Stock Issuance Agreement (incorporated by reference to Exhibit 99.6 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.24 Form of Addendum to Stock Issuance Agreement--Involuntary Termination Following Corporate Transaction/Change in Control (incorporated by reference to Exhibit 99.7 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.25 Form of Notice of Grant of Automatic Stock Option--Initial Grant filed as Exhibit 99.8 filed as Exhibit (incorporated by reference to Exhibit 99.8 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.26 Form of Notice of Grant of Automatic Stock Option--Annual Grant (incorporated by reference to Exhibit 99.9 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.27 Form of Automatic Stock Option Agreement filed as Exhibit 99.10 to the (incorporated by reference to Exhibit 99.10 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.28 Rights Agreement dated April 24, 1998 between Odetics and BankBoston, N.A., which includes the form of Certificate of Designation for the junior participating preferred stock as Exhibit A, the form of rights certificate as Exhibit B and the summary of rights to purchase Series A preferred shares as Exhibit C (incorporated by reference to Exhibit 4 to Odetics' Current Report on Form 8-K as filed with the SEC on May 1, 1998).
- 10.29 Promissory Note in the original principal amount of \$15,000,000 payable to The Northwestern Mutual Life Insurance Company dated October 31, 1989 and related Deed of Trust, Security Agreement and Financing Statement between Odetics, Inc. and Northwestern Mutual dated October 31, 1989 (incorporated by reference to Exhibit 10.12 to Odetics' Registration Statement on Form S-1 (Reg. No. 033-67932) as filed with the SEC July 6, 1993).
- 21 Subsidiaries of Odetics.
- 23.1 Consent of Independent Auditors.
- 27 Financial Data Schedule.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Anaheim, State of California, on June 28, 1999.

Odetics, Inc.

/s/ Joel Slutzky

By: _____
Joel Slutzky
Chief Executive Officer,
President
and Chairman of the Board

POWER OF ATTORNEY

We, the undersigned officers and directors of Odetics, Inc., do hereby constitute and appoint Joel Slutzky and Gregory A. Miner, and each of them, our true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby, ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Joel Slutzky _____ Joel Slutzky	Chief Executive Officer, President and Chairman of the Board (principal executive officer)	June 28, 1999
/s/ Crandall Gudmundson _____ Crandall Gudmundson	Director	June 28, 1999
/s/ Jerry Muench _____ Jerry Muench	Director	June 28, 1999
/s/ Kevin C. Daly _____ Kevin C. Daly	Director	June 28, 1999
/s/ Gary Smith _____ Gary Smith	Vice President and Controller (principal accounting officer)	June 28, 1999
/s/ Ralph R. Mickelson _____ Ralph R. Mickelson	Director	June 28, 1999

/s/ Leo Wexler	Director	June 28, 1999
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Leo Wexler		
/s/ John Seazholtz	Director	June 28, 1999
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John Seazholtz		
/s/ Paul E. Wright	Director	June 28, 1999
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Paul E. Wright		
/s/ Gregory A. Miner	Vice President, Director, Chief Operating Officer and Chief Financial Officer (principal financial officer)	June 28, 1999
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Gregory A. Miner		

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ODETICS, INC.

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REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Odetics, Inc.

We have audited the accompanying consolidated balance sheets of Odetics, Inc. as of March 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 1999. Our audits also included the financial statement schedule listed in Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above

present fairly, in all material respects, the consolidated financial position of Odetics, Inc. at March 31, 1998 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/Ernst & Young LLP

Orange County, California
May 11, 1999, except for Note 1,
as to which the date is
June 24, 1999

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ODETICS, INC.

CONSOLIDATED BALANCE SHEETS

	March 31	
	1998	1999
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,131	\$ 787
Trade accounts receivable, net of allowance for doubtful accounts of \$432,000 in 1998 and \$839,000 in 1999.....	15,048	18,889
Receivables from ATL (Note 4).....	4,802	--
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 5).....	2,583	2,423
Inventories:		
Finished goods.....	569	1,101
Work in process.....	2,176	749
Materials and supplies.....	18,065	14,135
Prepaid expenses and other.....	4,189	2,202
Total current assets.....	48,563	40,286
Property, plant and equipment:		
Land.....	2,090	2,060
Buildings and improvements.....	18,481	18,674
Equipment.....	28,006	28,618
Furniture and fixtures.....	1,312	2,685
Allowances for depreciation.....	(26,550)	(29,561)
	23,339	22,476
Long-term ATL note receivable less current portion (Note 4)..	6,770	--
Capitalized software costs, net (Note 1).....	3,785	7,667
Goodwill, net of accumulated amortization of \$571,000 in 1998 and \$1,046,000 in 1999.....	5,850	9,563
Other assets.....	483	1,363
Total assets.....	\$88,790	\$81,355
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable.....	\$13,672	\$10,454
Accrued payroll and related.....	5,093	5,441
Accrued expenses.....	2,083	1,933
Contract reserve.....	4,541	3,892
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 5).....	1,580	1,276
Current portion of long-term debt (Note 6).....	1,598	2,074
Total current liabilities.....	28,567	25,070
Revolving line of credit (Notes 1 and 6).....	12,800	10,997
Long-term debt, less current portion (Note 6).....	8,200	8,965

Deferred income taxes (Note 8).....	643	--
Commitments and contingencies (Notes 6 and 11)		
Stockholders' equity (Notes 9 and 10):		
Preferred stock:		
Authorized shares--2,000,000		
Issued and outstanding--none.....	--	--
Common stock, \$.10 par value:		
Authorized shares--10,000,000 of Class A and 2,600,000 of Class B		
Issued and outstanding shares--6,202,778 of Class A and 1,062,041 of Class B at March 31, 1998; 7,941,271 of Class A and 1,060,041 of Class B at March 31, 1999.....	726	901
Paid-in capital.....	45,240	59,579
Treasury stock, 50,000 and 50,093 shares in 1998 and 1999, respectively.....	(239)	(240)
Notes receivable from employees (Note 10).....	(3,377)	(96)
Accumulated other comprehensive income.....	25	92
Retained earnings.....	(3,795)	(23,913)
	-----	-----
Total stockholders' equity.....	38,580	36,323
	-----	-----
Total liabilities and stockholders' equity.....	\$88,790	\$81,355
	=====	=====

See accompanying notes.

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ODETICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended March 31		
	1997	1998	1999
	-----	-----	-----
(In thousands, except per share data)			
Net sales and contract revenues:			
Net sales.....	\$ 71,748	\$ 79,552	\$ 70,042
Contract revenues.....	9,032	10,284	13,331
	-----	-----	-----
	80,780	89,836	83,373
Costs and expenses:			
Cost of sales.....	48,507	55,227	49,816
Cost of contract revenues.....	4,907	6,430	9,007
Selling, general and administrative expense.....	19,831	26,010	31,670
Research and development expense...	7,734	9,271	11,191
In process research and development.....	--	2,106	--
Restructuring charge (Note 7).....	--	1,716	--
Interest expense, net.....	183	617	1,807
	-----	-----	-----
	81,162	101,377	103,491
Loss from continuing operations before income taxes.....	(382)	(11,541)	(20,118)
Income tax benefit (Note 8).....	(181)	(2,858)	--
	-----	-----	-----
Loss from continuing operations.....	(201)	(8,683)	(20,118)
Income from discontinued operations, net of income taxes.....	3,931	2,089	--
	-----	-----	-----
Net income (loss).....	\$ 3,730	\$ (6,594)	\$ (20,118)
	=====	=====	=====
Basic and diluted earnings (loss) per share:			
Continuing operations.....	\$ (.03)	\$ (1.26)	\$ (2.57)
Discontinued operations.....	.62	.31	--
	-----	-----	-----

Earnings (loss) per share.....	\$.59	\$ (.95)	\$ (2.57)
	=====	=====	=====

See accompanying notes.

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ODETICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Common stock									

Shares outstanding									

							Notes	Accumulative	
	Class A	Class B	Amount	Paid-in	Treasury	receivable	other	Retained	Compre-
	common	common		capital	stock	from	Comprehensive	earnings	hensive
	stock	stock				employees	income		income
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	(In thousands)								
Balance at March 31, 1996.....	4,935	1,161	\$610	\$21,904	\$ --	\$ --	\$ (10)	\$ 8,481	\$ 30,985
Issuances of common stock (Notes 9 and 10).....	284	--	28	2,568	--	--	--	--	2,596
Conversion of Class B common stock....	97	(97)	--	--	--	--	--	--	--
Issuance of ATL Products, Inc. common stock (Note 3).....	--	--	--	14,455	--	--	--	--	14,455
Purchase of treasury stock....	--	--	--	--	--	--	--	--	--
Foreign currency translation adjustments.....	--	--	--	--	--	--	62	--	62
Net income.....	--	--	--	--	--	--	--	3,730	3,730
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance at March 31, 1997.....	5,316	1,064	638	38,927	--	--	52	12,211	\$ 3,792
									=====
Issuances of common stock (Notes 9 and 10).....	885	--	88	7,968	--	(3,377)	--	--	4,679
Conversion of Class B common stock....	2	(2)	--	--	--	--	--	--	--
Spin-off of ATL Products, Inc. common stock (Note 3).....	--	--	--	(1,655)	--	--	--	(9,412)	(11,067)
Purchase of treasury stock....	--	--	--	--	(239)	--	--	--	(239)
Foreign currency translation adjustments.....	--	--	--	--	--	--	(27)	--	(27)
Net loss.....	--	--	--	--	--	--	--	(6,594)	(6,594)
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance at March 31, 1998.....	6,203	1,062	726	45,240	(239)	(3,377)	25	(3,795)	\$ (6,621)
									=====
Issuances of common stock (Notes 2, 9 and 10), net of offering costs of \$774,000.....	1,736	--	175	14,339	--	--	--	--	14,514
Conversion of Class B common stock....	2	(2)	--	--	--	--	--	--	--
Purchase of treasury stock....	--	--	--	--	(1)	--	--	--	(1)
Payments on notes receivable.....	--	--	--	--	--	3,281	--	--	3,281
Foreign currency translation adjustments.....	--	--	--	--	--	--	67	--	67
Net loss.....	--	--	--	--	--	--	--	(20,118)	(20,118)
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance at March 31, 1999.....	7,941	1,060	\$901	\$59,579	\$ (240)	\$ (96)	\$ 92	\$ (23,913)	\$ 36,323
	=====	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes.

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ODETICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended March 31		
	1997	1998	1999
	-----	-----	-----
	(In thousands)		
Operating activities			
Net income (loss).....	\$ 3,730	\$ (6,594)	\$ (20,118)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Income from discontinued operations.....	(3,931)	(2,089)	--
Depreciation and amortization.....	3,119	2,912	5,205
Write-off of in process research and development.....	--	2,106	--
Contribution to ASOP.....	517	511	--
Provision for losses on accounts receivable...	277	155	332
Provision (benefit) for deferred income taxes.....	266	(902)	915
Net proceeds from settlement of litigation....	5,860	--	--
Other.....	492	(11)	--
Changes in net assets of discontinued operations.....	1,238	--	--
Changes in operating assets and liabilities (Note 13).....	(6,773)	(1,462)	1,560
	-----	-----	-----
Net cash used in operating activities.....	4,795	(5,374)	(12,106)
Investing activities			
Purchases of property, plant and equipment.....	(3,295)	(3,829)	(2,747)
Software development costs.....	(691)	(2,527)	(4,944)
Purchase of net assets of acquired business.....	--	(2,171)	--
Net cash received from ATL.....	8,066	2,978	10,019
	-----	-----	-----
Net cash provided by (used in) investing activities.....	4,080	(5,549)	2,328
Financing activities			
Proceeds from line of credit and long-term borrowings.....	54,840	49,176	44,527
Principal payments on line of credit, long-term debt, and capital lease obligations.....	(65,069)	(40,159)	(45,089)
Proceeds from issuance of common stock.....	2,078	1,172	9,996
	-----	-----	-----
Net cash provided by (used in) financing activities.....	(8,151)	10,189	9,434
	-----	-----	-----
Increase (decrease) in cash.....	724	(734)	(344)
Cash and cash equivalents at beginning of year..	1,141	1,865	1,131
	-----	-----	-----
Cash and cash equivalents at end of year.....	\$ 1,865	\$ 1,131	\$ 787
	=====	=====	=====

See accompanying notes.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1999

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of Odetics, Inc. (the Company) include the accounts of the Company and its subsidiaries Odetics Europe Limited,

Odetics Asia Pacific Pte. Ltd. During fiscal 1990, the Company incorporated Odetics Europe Limited to develop European commercial sales. During fiscal 1995, the Company incorporated Odetics Asia Pacific Pte. Ltd. to develop commercial sales for the Asian market. All significant intercompany accounts and transactions are eliminated in consolidation.

On October 31, 1997, the Company completed the spin-off of its 82.9% interest in ATL Products, Inc. (ATL) by distributing the Company's 8,005,000 shares of Class A Common Stock to the Company's stockholders of record on October 31, 1997. As a result of the spin-off, the Company's financial statements have been restated to reflect the operations of ATL as discontinued operations.

Operations

Odetics has initiated a business strategy known as its incubator strategy whereby its goal is to nurture and develop companies that can be spun-off to Odetics stockholders. In pursuing this strategy Odetics has incurred losses from continuing operations of \$8.7 million and \$20.1 million in fiscal 1998 and 1999, respectively, due in part to making investments in its business for research and development as well as developing a separate infrastructure for certain business units sufficient for these business units to function ultimately as independent public companies. In addition, during fiscal 1998 and 1999, the Company has invested \$7.5 million in capitalized software development costs.

The Company has obtained funds to pursue this strategy in fiscal 1998 and 1999 from repayments of amounts due from ATL (see Note 4), revolving line of credit borrowings, equity offerings, equipment financing, and decreases in net working capital items, excluding cash. In fiscal 2000, it will be necessary either to obtain sufficient additional funding to continue this strategy or the Company will be required to curtail the incubator strategy in order to reduce operating losses. Management believes cash flow available from the revolving line of credit, possible proceeds from additional equity offerings of common stock, and from repayments of amounts due Odetics by any companies that are spun-out of Odetics should be sufficient to allow the Company to execute its current operating plans and meet its obligations on a timely basis for at least the next twelve months. Additionally, management believes it is possible to obtain additional funds, if required, through the sale or placing of additional financing on its facilities in Anaheim, California.

In June 1999, the Company learned it had exceeded the borrowing availability under its revolving line of credit (see Note 6) due to having insufficient eligible collateral as of May 31, 1999. The Company is in discussions with the lender to amend the definition of eligible collateral in the revolving credit agreement and permit continued borrowings. Management believes the Company will obtain a waiver with respect to its current noncompliance with the collateral requirements of the revolving credit agreement and that the agreement will be amended to provide for a greater proportion of the Company's assets being considered eligible collateral.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates made in preparing the consolidated financial statements include the allowances for doubtful accounts and deferred tax assets,

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Odetics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

inventory reserves, certain accrued liabilities and costs to complete long-term contracts and estimates of future cash flows used to determine whether asset impairments exist.

Revenue Recognition

Contract revenues and earnings on long-term cost-reimbursement and fixed-price contracts of the Company's subsidiary, Odetics ITS, Inc., and the

Communications division are recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Contract revenues include costs incurred plus a portion of estimated fees or profits based on the relationship of costs incurred to total estimated costs. Any anticipated losses on contracts are charged to earnings when identified. Certain contracts contain incentive and/or penalty provisions that provide for increased or decreased revenues based upon performance in relation to established targets. Incentive fees are recorded when earned and penalty provisions are recorded when incurred, as long as the amounts can reasonably be determined.

Certain products sold by the Company include software which is integral to the functionality of the product. When such products do not require significant production, modification or customization of the software, revenue is recognized upon delivery, assuming the fee is fixed and collectibility is probable. If an arrangement requires significant production, modification or customization of the software, the arrangement is accounted for on the percentage of completion method of accounting as costs are incurred.

Revenues from follow-on service and support for which the Company typically charges separately are recognized when earned. Revenues from computer software maintenance agreements are recognized ratably over the term of the agreements. When computer software maintenance is included in a software license agreement, an appropriate portion of the license fee is deferred and recognized over the maintenance period.

For all other products, sales and related cost of sales are recognized on the date of shipment or, if required, upon acceptance by the customer.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with maturities of less than ninety days.

Concentration of Credit Risk

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses have been within management's expectations and within amounts provided through the allowances for doubtful accounts. At March 31, 1998 and 1999, accounts receivable from governmental agencies and prime government contractors were approximately \$2,801,000 and \$3,616,000, respectively.

Fair Values of Financial Instruments

Fair values of cash and cash equivalents, and the current portion of long-term debt approximate the carrying value because of the short period of time to maturity. The fair value of long-term debt and the note receivable from ATL approximates carrying value because the related rates of interest approximate current market rates and have variable rates of interest.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Inventory Valuation

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Buildings are depreciated using the straight-line method over their estimated useful lives up to a period of forty years. Equipment, furniture and fixtures, including assets recorded under capital lease obligations, are depreciated principally by the declining balance method over their estimated useful lives ranging from four to eight years.

Long-Lived Assets

Long-lived assets and certain identifiable intangibles held and used by the

Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability test is performed at the lowest level based on undiscounted net cash flows. Based on its analysis, the Company believes that no impairment of the carrying value of its long-lived assets, inclusive of goodwill, existed at March 31, 1999. The Company's analysis was based on an estimate of future undiscounted cash flows using forecasts contained in the Company strategic plan. It is at least reasonably possible that the Company's estimate of future undiscounted cash flows may change during fiscal 2000. If the Company's estimate of future undiscounted cash flow should change or if the strategic plan is not achieved, future analyses may indicate insufficient future undiscounted cash flows to recover the carrying value of the Company's long-lived assets, in which case such assets would be written down to estimated fair value.

Goodwill

Goodwill, representing the excess of the purchase price over the fair value of the net assets of acquired entities, is being amortized using the straight-line method over the estimated useful life of 15 years.

Research and Development Expenditures

Software development costs incurred subsequent to determination of technical feasibility are capitalized. Amortization of capitalized software costs is provided on a product-by-product basis at the greater of the amount computed using (a) the ratio of current gross revenues for the product to the total of current and anticipated future gross revenues or (b) the straight-line method over the remaining estimated economic life of the product. Amortization begins when product is available for general release to customers. Generally, an original estimated economic life of two to five years is assigned to capitalized software development costs.

During fiscal 1997, 1998 and 1999, software development costs were amortized to cost of sales totaling \$473,000, \$585,000, and \$1,063,000, respectively.

All other research and development expenditures are charged to research and development expense in the period incurred.

Warranty

The Company provides a one-year warranty on all products and records a related provision for estimated warranty costs at the date of sale. The estimated warranty liability at March 31, 1999 and 1998 was \$411,000 and \$250,000, respectively.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Foreign Currency Translation

The balance sheet accounts of Odetics Europe Limited and Odetics Asia Pacific Pte. Ltd. are translated at the current year-end exchange rate and income statement items are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of stockholders' equity. Gains and losses resulting from transactions of the Company and its subsidiaries which are made in currencies different from their own are immaterial and are included in income as they occur.

Income Taxes

Deferred income tax assets and liabilities are computed for differences between financial statement and tax basis of assets and liabilities based on enacted tax laws and rates applicable to the period in which differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized. The provision for income taxes is the taxes payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

Earnings (Loss) Per Share

Diluted earnings per share reflects the dilutive effects of options, warrants and convertible securities while basic earnings per share is calculated solely on the basis of the Company's net loss divided by weighted average number of common shares outstanding.

Earnings (Loss) Per Share

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

	Years ended March 31		
	1997	1998	1999
	(in thousands, except share data)		
Numerator:			
Loss from continuing operation.....	\$ (201)	\$ (8,683)	\$ (20,118)
Income from discontinued operations.....	3,931	2,089	--
Net income (loss).....	\$3,730	\$ (6,594)	\$ (20,118)
Denominator:			
Weighted-average shares outstanding.....	6,299,000	6,912,000	7,820,000
Basic and diluted earnings (loss) per share:			
Continuing operations.....	\$ (.03)	\$ (1.26)	\$ (2.57)
Discontinued operations.....	.62	.31	--
Earnings (loss) per share.....	\$.59	\$ (.95)	\$ (2.57)

Stock Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

To calculate the pro forma information required by Statement 123, the Company uses the Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Advertising Expenses

The Company expenses advertising costs as incurred. Advertising expense

totalled \$1,020,000, \$2,226,000 and \$2,622,000 in the years ended March 31, 1997, 1998 and 1999, respectively.

Adoption of Statement of Financial Accounting Standards No. 130

Effective April 1, 1998, the Company adopted FASB Statement No. 130, Reporting Comprehensive (Statement 130). Statement 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no material impact on the Company's net income or stockholders' equity. Statement 130 requires unrealized gains or losses on foreign currency translation adjustments, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income.

Reclassifications

Certain amounts in the 1997 and 1998 consolidated financial statements have been reclassified to conform with the 1999 presentation.

2. Acquisitions

On June 20, 1997, the Company acquired certain assets and assumed certain contracts from Rockwell Collins, Inc. (Rockwell). Revenues and costs related to contracts assumed from Rockwell are included in the accompanying statement of operations since the date of acquisition. The total cost of the acquisition was approximately \$2.2 million in cash. A total of \$1.3 million of assets were acquired and \$5.0 million of liabilities were assumed. The acquisition has been accounted for as a purchase and, accordingly, the excess of cost over the fair value of net assets acquired of \$5.9 million has been recorded as goodwill, and is being amortized over its expected benefit period of 15 years.

On October 29, 1997, the Company acquired the net assets of Intelligent Controls Inc. (ICI). The total cost of the acquisition was approximately \$2.7 million which was paid in the Company's Class A common stock. A total of \$1.0 million of assets were acquired and \$0.4 million of liabilities were assumed. In connection with the purchase, \$2.1 million of in process research and development was written off.

On September 12, 1998, the Company acquired International Media Integration Services Limited, a United Kingdom corporation (IMIS), pursuant to the terms of a Sale and Purchase of Shares Agreement whereby the Company purchased all of the issued and outstanding shares of stock of IMIS for an aggregate purchase price of \$970,000 which was paid in 173,214 shares of the Company's Class A common stock. The acquisition has been accounted for as a purchase, and the purchase price has been allocated to the fair value of the net assets acquired with the excess approximating \$10,000 allocated to goodwill.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

On October 16, 1998, the Company, through its subsidiary, Odetics ITS Inc., a California corporation, acquired Meyer, Mohaddes Associates Inc., a California corporation (MMA). Pursuant to the terms of the merger agreement, the Company purchased all of the issued and outstanding shares of stock of MMA for \$4.6 million, by issuing 55,245 shares of the Company's Class A common stock and 432,100 shares of Odetics ITS, Inc.'s common stock after giving effect to the purchase price adjustment required by the merger agreement. A total of \$2.0 million of assets were acquired and \$1.2 million of liabilities were assumed. The acquisition was accounted for as a purchase and, accordingly, the excess of cost over the fair value of net assets acquired of \$3.8 million has been recorded as goodwill, and is being amortized over its expected benefit period of 15 years. In April 1999, the Company issued an additional 25,740 shares of Class A common stock valued at \$250,000 to the MMA shareholders upon resolution of a contingency specified in the merger agreement. Additional shares with a value of \$1 million may be issued through April 2001 upon resolution of certain other contingencies specified in the merger agreement.

On November 11, 1998, the Company, through its subsidiary, Odetics ITS, Inc., acquired certain assets and assumed certain liabilities of Viggen

Corporation, a Virginia corporation, pursuant to the terms of an Agreement of Purchase and Sale of Assets for an aggregate purchase price of \$275,000 evidenced by the issuance of 27,603 shares of the Company's Class A common stock which were issued in April 1999. The acquisition has been accounted for as a purchase and the purchase price, including direct costs of the acquisition, has been allocated to the fair value of the net assets acquired with the excess approximating \$746,000 allocated to goodwill. The recorded goodwill is being amortized over its expected benefit period of 15 years.

Pro forma information related to these acquisitions is not material to the Company's historical consolidated results of operations.

3. Sale of Stock of ATL Products, Inc.

On March 13, 1997, ATL Products, Inc. (ATL), which at that time was a wholly-owned subsidiary of the Company, completed an initial public offering of 1,650,000 shares of its Class A common stock, at an offering price of \$11 per share (the Offering). Following the Offering, the Company's beneficial ownership interest in the ATL totaled 82.9%.

On October 31, 1997, the Company completed a tax-free spin-off of its remaining 82.9% interest in ATL to the Company's stockholders, pursuant to which each holder of the Company's Class A and Class B Common as of October 31, 1997, received approximately 1.1 shares of Class A Common Stock of ATL for each share of the Company's common stock then held.

4. Receivables from ATL

In April 1997, the Company entered into a promissory note receivable with ATL in the original principal amount of \$13.0 million representing the aggregate balance of ATL's interest bearing advances from the Company. The note was paid in full in July 1998.

Up to the time its spin-off, the operating results of ATL were included in the consolidated federal income tax return of the Company. Effective upon the close of ATL's initial public offering, the companies entered into a tax sharing agreement, which was effective retroactively to April 1, 1996, whereby the consolidated federal and state income tax liabilities for a given tax year were allocated to the companies in Odetics group according to their relative and separate taxable income for such year. Amounts receivable from ATL under this arrangement totaled \$2.1 million in fiscal 1997 and \$1.6 million in fiscal 1998. The tax sharing agreement was terminated upon the spin-out of Odetics remaining interest in ATL in October 1997.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

5. Costs and Estimated Earnings on Uncompleted Contracts

Costs incurred, estimated earnings and billings on uncompleted long-term contracts are as follows:

	March 31	
	1998	1999
	-----	-----
	(In thousands)	
Costs incurred on uncompleted contracts.....	\$22,861	\$19,204
Estimated earnings.....	1,903	1,557
	-----	-----
	24,764	20,761
Less billings to date.....	23,761	19,614
	-----	-----
	\$ 1,003	\$ 1,147
	=====	=====

Included in accompanying balance sheets:

Costs and estimated earnings in excess of billings on uncompleted contracts.....	\$ 2,583	\$ 2,423
Billings in excess of costs and estimated earnings on uncompleted contracts.....	(1,580)	1,276
	-----	-----
	\$ 1,003	\$ 1,147
	=====	=====

Costs and estimated earnings in excess of billings at March 31, 1998 and 1999 include \$740,000 and \$320,000, respectively, that were not billable as certain milestone objectives specified in the contracts had not been attained. Substantially all costs and estimated earnings in excess of billings at March 31, 1998 are expected to be billed and collected during the year ending March 31, 1999.

6. Revolving Line of Credit and Long-Term Debt

The Company has a \$17.0 million revolving line of credit which provides for borrowings at the prime rate plus 2.0% (9.75% at March 31, 1999). Borrowings are available for general working capital purposes, and at March 31, 1999, approximately \$6.0 million was available for borrowing under the line. The line expires December 31, 2000. (See Note 1--Operations.)

The revolving line of credit is collateralized by substantially all of the Company's assets. Under the terms of the loan and security agreement, the Company is required to comply with certain covenants, maintain certain debt to net worth ratios, working capital current ratios and minimum net worth requirements, and prohibits the payment of dividends without the lender's consent.

Included within the borrowing limits of the loan and security agreement, the Company has available approximately \$2,000,000 in letters of credit at March 31, 1999.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Long-term debt consisted of the following:

	March 31	
	1998	1999
	-----	-----
	(In thousands)	
Note payable, accruing interest at 9.36%, collateralized by deed of trust on land and buildings with a net book value of approximately \$11,000,000, payable in monthly installments through December 2004.....	\$ 9,218	\$ 8,173
Notes payable, accruing interest at 7.08% to 9.21%, collateralized by equipment, payable in monthly installments through 2003.....	580	2,866
	-----	-----
	9,798	11,039
Less current portion.....	1,598	2,074
	-----	-----
	\$ 8,200	\$ 8,965
	=====	=====

The annual maturities of long-term debt for the five years ending March 31, 2003 and thereafter are as follows:

(In thousands)

2000.....	\$ 2,074
2001.....	2,066
2002.....	2,221
2003.....	1,813
2004.....	1,666
Thereafter.....	1,199

	\$11,039
	=====

7. Restructuring Charge

In the fourth quarter of fiscal 1998, the Board of Directors approved an early retirement plan for certain founders, senior officers and employees of the Company. The Company recorded a charge of approximately \$1.7 million related to this plan that is expected to be paid out over a four year period.

8. Income Taxes

The reconciliation of the income tax benefit from continuing operations to taxes computed at U.S. federal statutory rates is as follows:

	Year ended March 31		
	1997	1998	1999
	-----	-----	-----
	(In thousands)		
Income tax benefit at statutory rates.....	\$ (130)	\$ (3,915)	\$ (6,840)
Acquired in process research and development.....	--	715	--
State income taxes, net of federal tax benefit....	(22)	189	--
Increase (decrease) of valuation allowance associated with federal deferred tax assets.....	(99)	(175)	5,373
Foreign losses recorded without benefit.....	--	118	1,061
Foreign income at lower tax rate.....	--	15	--
Nondeductible goodwill amortization.....	7	11	31
Other.....	63	184	375
	-----	-----	-----
	\$ (181)	\$ (2,858)	\$ --
	=====	=====	=====

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

United States and foreign loss from continuing operations before income taxes are as follows:

	Year ended March 31		
	1997	1998	1999
	-----	-----	-----
	(In thousands)		
Pretax loss:			
Domestic.....	\$ (372)	\$ (9,726)	\$ (16,997)
Foreign.....	(10)	(1,815)	(3,121)
	-----	-----	-----
	\$ (382)	\$ (11,541)	\$ (20,118)
	=====	=====	=====

Significant components of the income tax benefit from continuing operations

are as follows:

	Year ended March 31		
	1997	1998	1999
	(In thousands)		
Current:			
Federal.....	\$ (347)	\$ (1,143)	\$ (915)
State.....	(145)	(328)	--
Tax benefit from stock option exercises.....	(801)	(300)	--
Foreign.....	45	(485)	--
Total current.....	(1,248)	(2,256)	(915)
Deferred:			
Federal.....	350	(1,516)	915
State.....	(84)	614	--
Total deferred.....	266	(902)	915
Charge in lieu:			
Credit to additional paid-in capital attributable to stock option exercises.....	801	300	--
	\$ (181)	\$ (2,858)	\$ --
	=====	=====	=====

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The components of deferred tax assets and liabilities are as follows:

	1998	1999
	-----	-----
	(In thousands)	
Deferred tax assets:		
Inventory reserves.....	\$ 979	\$ 780
Deferred compensation and other payroll accruals.....	2,077	1,133
Acquired net operating loss carryforwards.....	217	217
Net operating loss carryover.....	--	6,120
General business tax credit carryforwards.....	951	958
Alternative minimum tax credit carryforwards.....	404	404
Bad debt reserve.....	185	307
Other reserves.....	328	178
Other, net.....	338	314
Total deferred tax assets.....	5,479	10,411
Valuation allowance for deferred tax assets.....	(1,490)	(6,575)
Net deferred tax assets.....	3,989	3,836
Deferred tax liabilities:		
Tax over book depreciation.....	2,576	2,777
Capitalized interest and taxes.....	468	468
Cash to accrual adjustment.....	--	556
Other, net.....	30	35
Total deferred tax liabilities.....	3,074	3,836
Net deferred tax assets.....	\$ 915	\$ --
	=====	=====

At March 31, 1999, for federal income tax purposes, the Company had approximately \$958,000 in general business credit carryforwards, \$404,000 of alternative minimum tax credit carryforwards. The Company also has \$14,600,000 of net operating loss carryforwards for federal income tax purposes which begin to expire in 2019, and \$640,000 of net operating loss carryforwards which were acquired as part of the ICI acquisition. For financial reporting purposes, a valuation allowance has been recorded to offset the deferred tax asset related to these credits and net operating losses. Any future benefits recognized from the reduction of the valuation allowance related to these carryforwards will result in a reduction of income tax expense, other than the ICI operating loss carryforwards whose realization will result in an adjustment of assets acquired in this acquisition. The credit carryforwards expire at various dates beginning in 2005 and the acquired net operating losses begin to expire in 2002.

Because of the "change of ownership" provision of the Tax Reform Act of 1986, utilization of the Company's net operating loss carryforwards may be subject to an annual limitation against taxable income in future periods. As a result of the annual limitation, a portion of these carryforwards may expire before ultimately becoming available to reduce future income tax liabilities.

9. Associate Incentive Programs

Under the terms of a Profit Sharing Plan, the Company contributes to a trust fund such amounts as are determined annually by the Board of Directors. No contributions were made in 1997, 1998 or 1999.

In May 1990, the Company adopted a 401(k) Plan as an amendment and replacement of the former Associate Stock Purchase Plan that was an additional feature of the Profit Sharing Plan. Under the 401(k) Plan,

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

eligible associates voluntarily contribute to the plan up to 15% of their salary through payroll deductions. The Company matches 50% of contributions up to a stated limit. Under the provisions of the 401(k) Plan, associates have four investment choices, one of which is the purchase of Odetics, Class A common stock at market price. Company matching contributions were approximately \$525,000, \$548,000 and \$644,000 in 1997, 1998 and 1999, respectively.

Effective April 1, 1987, the Company established a noncontributory Associate Stock Ownership Plan (ASOP) for all associates with more than six months of eligible service. The ASOP provides that Company contributions, which are determined annually by the Board of Directors, may be in the form of cash or shares of Company stock. The Company contributions to the ASOP were approximately \$517,000, \$511,000 and \$55,000 in 1997, 1998 and 1999, respectively. Shares distributed through the ASOP Plan were included in total outstanding shares used in the earnings per share calculation.

10. Stock Option and Deferred Compensation Plans

The Company has adopted an Associate Stock Option Plan which provides that options for shares of the Company's unissued Class A common stock may be granted to directors and associates of the Company. Options granted enable the option holder to purchase one share of Class A common stock at prices which are equal to or greater than the fair market value of the shares at the date of grant. Options expire ten years after date of grant or 90 days after termination of employment and vest ratably at 33% on each of the first three anniversaries of the grant date.

Year ended March 31		
1997	1998	1999
Weighted Average	Weighted Average	Weighted Average

	Exercise		Exercise		Exercise	
	Options	Price	Options	Price	Options	Price
	-----	-----	-----	-----	-----	-----
(In thousands, except per share data)						
Options outstanding at beginning of year.....	691	\$5.32	640	\$6.41	563	\$4.67
Granted.....	183	9.17	502	4.63	149	7.36
Exercised.....	(217)	5.41	(578)	4.79	(59)	4.63
Canceled.....	(17)	4.43	(1)	5.99	(25)	4.63
	-----	-----	-----	-----	-----	-----
Options outstanding at end of year.....	640	\$6.41	563	\$4.67	628	\$5.27
	=====	=====	=====	=====	=====	=====
Exercisable at end of year.....	308		--		165	
	=====		=====		=====	
Available for grant at end of year.....	164		157		37	
	=====		=====		=====	
Weighted average fair value of options granted.....	\$4.91		\$2.43		\$3.81	

The exercise price for options outstanding as of March 31, 1999 is \$4.63 to \$8.75. The weighted-average remaining contractual life of those options is nine years.

In connection with the completed spin-off of the Company's interest in ATL, the Company made secured loans to option holders in amounts up to the exercise price of their options, which totaled \$3.4 million. These notes are full recourse, are secured by shares of stock of the Company and ATL, are interest bearing with a rate of 5.7% and are due five years from the exercise date. Loans must be repaid upon sale of the underlying shares of stock or upon termination of employment.

In calculating pro forma information regarding net income and earnings per share, as required by Statement 123, the fair value was estimated at the date of grant using a Black-Scholes option pricing model with the

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

following weighted-average assumptions for the options on the Company's Class A common stock: risk-free interest rate of 6.0%; a dividend yield of 0%; volatility of the expected market price of the Company's Class A common stock of .40; and a weighted-average expected life of the option of seven years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information for the years ended March 31, 1997, 1998 and 1999 follows:

	1997	1998	1999
	-----	-----	-----
Pro forma net income.....	\$3,441,000	\$ (7,084,000)	\$ (20,555,000)
Pro forma net income per share.....	\$.55	\$ (1.03)	\$ (2.63)

During 1986, the Company adopted an Executive Deferral Plan under which certain executives may defer a portion of their annual compensation. All deferred amounts earn interest, generally with no guaranteed rate of return. Compensation charged to operations and deferred under the plan totaled \$410,000, \$302,000 and \$377,000 for 1997, 1998 and 1999, respectively.

11. Commitments and Contingencies

The Company has lease commitments for facilities in various locations

throughout the United States. The annual commitment under these noncancelable operating leases at March 31, 1999 is as follows (in thousands):

Fiscal Year

2000.....	\$505,000
2001.....	282,000
2002.....	122,000
2003.....	10,000
2004.....	--
Thereafter.....	--

	\$919,000
	=====

12. Business Segment and Geographic Information

Effectively January 1, 1998, the Company adopted FASB Statement No. 131, Disclosure about Segments of an Enterprise and Related Information (Statement 131). Statement 131 establishes standard for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. Operating segments are components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Statement 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of Statement 131 did not affect results of operations or financial position, but did affect the following disclosure of segment information.

The Company operates in three reportable segments: intelligent transportation systems, video products, which includes products for the television broadcast and video security markets, and telecommunications. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that certain expenses, such as interest, amortization of certain intangibles and certain corporate expenses are not allocated to the segments. In addition, certain assets including cash and cash equivalents, deferred taxes and certain long-lived and intangible assets are not allocated to the segments. Intersegment sales are recorded at the selling segment's cost plus profit.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The reportable segments are each managed separately because they manufacture and distribute distinct products or provide services with different processes.

Selected financial information for the Company's reportable segments as of and for the years ended March 31, 1997, 1998 and 1999 follows:

	Intelligence Transportation	Video Products	Telecom Product	Total
	-----	-----	-----	-----
	(In thousands)			
Year ended March 31, 1997				
Revenue from external customers.....	\$ 538	\$51,656	\$21,101	\$ 73,295
Intersegment revenues.....	--	4,347	--	4,347
Depreciation and amortization..	64	1,088	1,030	2,182
Segment income (loss).....	(3,149)	2,881	3,618	3,350
Segment assets.....	1,675	30,391	10,512	42,578

Expenditure for long-lived assets.....	1,035	2,316	647	3,998
Year ended March 31, 1998				
Revenue from external customers.....	\$ 5,841	\$54,161	\$23,613	\$ 83,615
Intersegment revenues.....	--	4,163	53	4,216
Depreciation and amortization..	514	1,362	589	2,465
Segment income (loss).....	(5,445)	(2,240)	3,527	(4,158)
Segment assets.....	11,614	37,913	7,943	57,470
Expenditure for long-lived assets.....	7,384	4,003	1,001	12,388
Year ended March 31, 1999				
Revenue from external customers.....	\$14,580	\$46,755	\$13,974	\$ 75,309
Intersegment revenues.....	--	5,351	94	5,445
Depreciation and amortization..	765	2,282	1,199	4,246
Segment income (loss).....	(3,865)	(5,381)	(2,617)	(11,863)
Segment assets.....	17,943	38,831	8,954	65,728
Expenditure for long-lived assets.....	4,924	3,457	3,084	11,465

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following reconciles segment income to consolidated income before income taxes and segment assets and deprecation and amortization to consolidated assets and consolidated depreciation and amortization:

	1997	1998	1999
	-----	-----	-----
	(In thousands)		
Revenue			
Total revenues for reportable segments....	\$77,642	\$ 87,832	\$ 80,754
Non reportable segment revenues.....	7,485	6,220	8,064
Other revenues.....	--	--	--
Elimination of intersegment sales.....	(4,347)	(4,216)	(5,445)
	-----	-----	-----
Total consolidated revenues.....	\$80,780	\$ 89,836	\$ 83,373
	=====	=====	=====
Segment Profit or Loss			
Total profit or loss for reportable segments.....	\$ 3,350	\$ (4,158)	\$ (11,863)
Other profit or loss.....	297	(273)	(1,201)
Unallocated amounts:			
Corporate and other expenses.....	(3,846)	(4,777)	(5,247)
Special charge.....	--	(1,716)	--
Interest expense.....	(183)	(617)	(1,807)
	-----	-----	-----
Loss from continuing operations before income taxes.....	\$ (382)	\$ (11,541)	\$ (20,118)
	=====	=====	=====
Assets			
Total assets for reportable segments.....	\$42,578	\$ 57,470	\$ 65,728
Assets held at Corporate.....	43,227	31,320	15,627
	-----	-----	-----
Total assets.....	\$85,805	\$ 88,790	\$ 81,355
	=====	=====	=====
Depreciation and Amortization			
Depreciation and amortization for reportable segments.....	\$ 2,182	\$ 2,465	\$ 4,246
Other.....	937	447	959
	-----	-----	-----
Total depreciation and amortization...	\$ 3,119	\$ 2,912	\$ 5,205
	=====	=====	=====

Selected financial information for the Company's operations by geographic segment is as follows:

	1997	1998	1999
	-----	-----	-----
	(In thousands)		
Geographic Area Revenue			
United States.....	\$51,909	\$60,502	\$61,171
Europe.....	4,980	5,538	7,582
Asia Pacific Rim.....	14,234	17,842	6,287
Other.....	9,657	5,954	8,333
	-----	-----	-----
Total net revenue.....	\$80,780	\$89,836	\$83,373
	=====	=====	=====
Geographic Area Long-Lived Assets			
United States.....	\$23,309	\$32,929	\$39,424
Europe.....	490	504	1,612
Asia Pacific Rim.....	49	24	33
Other.....	--	--	--
	-----	-----	-----
Total long-lived assets.....	\$23,848	\$33,457	\$41,069
	=====	=====	=====

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

13. Supplemental Cash Flow Information

	Year ended March 31		
	-----	-----	-----
	1997	1998	1999
	-----	-----	-----
	(In thousands)		
Net cash used in changes in operating assets and liabilities, net of litigation settlement and acquisitions:			
(Increase) decrease in accounts receivable.....	\$(4,511)	\$ 1,136	\$(2,706)
(Increase) decrease in net costs and estimated earnings in excess of billings.....	(1,217)	(1,771)	276
(Increase) decrease in inventories.....	401	(4,604)	4,825
Increase in prepaids and other assets.....	(3,369)	(951)	111
Increase (decrease) in accounts payable and accrued expenses.....	1,923	4,728	(946)
	-----	-----	-----
Net cash used in changes in operating assets and liabilities.....	\$(6,773)	\$(1,462)	\$ 1,560
	=====	=====	=====
Cash paid during the year:			
Interest.....	\$ 1,888	\$ 1,526	\$ 1,997
Income taxes paid (refunded).....	975	365	(463)
Noncash transactions during the year:			
Equity of subsidiary allocable to minority interest.....	\$ 1,462	\$ --	\$ --
Purchase of subsidiary for stock.....	--	2,734	5,845

14. Legal Proceedings

The Company brought an action against Storage Technology Corporation (StorageTek) in the Eastern District Court of Virginia alleging that StorageTek had infringed the Company's patent covering robotics tape cassette handling systems (United States Patent No. 4,779,151). StorageTek counter

claimed alleging that the Company infringed several of StorageTek's patents. Prior to the trial, the court dismissed two of the infringement claims against the Company and the third claim was resolved between the parties. In January 1996, a jury concluded that the Company's patent claims were not infringed under the doctrine of equivalents based upon a claim construction defined by the court prior to the trial. The jury also concluded that the Company's patent was not invalid. In June 1997, the United States Court of Appeals for the Federal Circuit vacated the lower court's claim construction and findings of noninfringement of the Company's patent. The appellate court remanded the case for consideration of infringement under a proper claim construction of infringement under a proper claim construction. In August 1997, the appellate court denied a petition for rehearing requested by StorageTek. The case was returned to the Federal District court for retrial, in March 1998 a jury awarded the Company damages in the amount of \$70.6 million. In June 1998, the U.S. District Court for the Eastern District of Virginia granted an injunction against StorageTek enjoining StorageTek from making, selling or using any infringing devices, including the ACS4400, PowderHorn, Wolfcreek and Genesis automated tape library systems that include a pass-through port. In June 1998, the U.S. District Court issued an order requesting the parties to brief the issues of whether StorageTek's motion for judgment as a matter of law should have been granted, and whether the injunction previously ordered by the court against StorageTek should be stayed pending appeal. After filing hearings, the trial court vacated its own injunction and granted StorageTek's motion for judgment as a matter of law to vacate the jury trial result and to find StorageTek not infringing. The Company has appealed these and other court rulings. The defendants also cross-appealed certain other court rulings. The U.S. Court of Appeals for the Federal Circuit heard final arguments on April 12, 1999. A decision from the U.S. Court of Appeals is pending. The accompanying financial statements do not include any amounts related to the eventual settlement of this matter.

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SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

ODETICS, INC.

Column A ----- Description -----	Column B ----- Balance at Beginning of Period -----	Column C ----- Charged to Costs and Expenses ----- Charged to Accounts-- Describe -----	Column D ----- Deductions-- Describe -----	Column E ----- Balance at End of Period -----
Year ended March 31, 1997(1):				
Deducted from asset accounts:				
Allowance for doubtful accounts..	\$ 326,000	\$ 24,000	\$ --	\$ 350,000
Reserve for inventory obsolescence.....	1,811,000	626,000	--	2,437,000
Total.....	\$2,137,000	\$ 650,000	\$ --	\$2,787,000
	=====	=====	=====	=====
Year ended March 31, 1998:				
Deducted from asset accounts:				
Allowance for doubtful accounts..	\$ 350,000	\$ 155,000	\$ --	\$ 73,000(1) \$ 432,000
Reserve for inventory obsolescence.....	2,437,000	1,240,000	--	\$ 796,000(2) 2,881,000
Total.....	\$2,787,000	\$1,395,000	\$ --	\$ 869,000 \$3,313,000
	=====	=====	=====	=====
Year ended March 31, 1999:				
Deducted from asset accounts:				
Allowance for				

doubtful accounts..	\$ 432,000	\$ 332,000	\$125,000 (3)	\$ 50,000 (1)	\$ 839,000
Reserve for					
inventory					
obsolescence.....	2,881,000	1,590,000	--	1,300,000 (2)	3,171,000
	-----	-----	-----	-----	-----
Total.....	\$3,313,000	\$1,922,000	\$125,000	\$1,350,000	\$4,010,000
	=====	=====	=====	=====	=====

(1) Uncollectible accounts written off against reserve

(2) Inventory scrap

(3) Allowance assumed in acquisition

TBCC

Loan and Security Agreement

Borrowers: Odetics, Inc., a Delaware corporation
Odetics ITS, Inc., a California corporation
Gyyr Incorporated, a California corporation
Mariner Networks, Inc., a Delaware corporation
Meyer, Mohaddes Associates, Inc., a California corporation

Address: 1515 S. Manchester
Anaheim, California 92802

Date: December 28, 1998

THIS LOAN AND SECURITY AGREEMENT is entered into as of the above date, between the above borrower(s) (jointly and severally, the "Borrower"), having its chief executive office and principal place of business at the address shown above, and TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation, ("TBCC") having its principal office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018 and having an office at 15260 Ventura Blvd., Suite 1240, Sherman Oaks, CA 91403. The Schedule to this Agreement (the "Schedule") being signed concurrently is an integral part of this Agreement. (Definitions of certain terms used in this Agreement are set forth in Section 9 below.) The parties agree as follows:

1. LOANS.

1.1. Loans. TBCC, subject to the terms and conditions of this Agreement,

agrees to make loans (the "Loans") to Borrower, from time to time during the period from the date of this Agreement to the Maturity Date set forth in the Schedule, at Borrower's request, in an aggregate principal amount at any one time outstanding not to exceed the Credit Limit shown on the Schedule. If at any time the total outstanding Loans and other monetary Obligations exceed the Credit Limit, Borrower shall repay the excess immediately without demand*. Borrower shall use the proceeds of all Loans solely for lawful general business purposes.

*provided, however, that if the total outstanding Loans and other monetary Obligations exceed the Credit Limit because of a change in the manner in which Eligible Receivables or Eligible Inventory is computed, then Borrower shall have five (5) Business Days to repay such excess.

1.2. Due Date. The Loans, all accrued interest and all other monetary

Obligations shall be payable in full on the Maturity Date. Borrower may borrow, repay and reborrow Loans (other than any Term Loans), in whole or in part, in accordance with the terms of this Agreement.

1.3. Loan Account. TBCC shall maintain an account on its books in the name

of Borrower (the "Loan Account"). All Loans and advances made by TBCC to Borrower or for Borrower's account and all other monetary Obligations will be charged to the Loan Account. All amounts received by TBCC from Borrower or for Borrower's account will be credited to the Loan Account. TBCC will send Borrower a monthly statement reflecting the activity in the Loan Account, and each such monthly statement shall be an account stated between Borrower and TBCC and shall be final conclusive and binding absent manifest error.

1.4. Collection of Receivables. Borrower shall remit to TBCC all Collections

including all checks, drafts and other documents and instruments evidencing remittances in payment (collectively referred to as "Items of Payment") within one Business Day after receipt, in the same form as received, with any necessary

indorsements. For purposes of calculating interest due to TBCC, credit will be given for Collections and all other proceeds of Collateral and other payments to TBCC three Business Days after receipt of cleared funds. For all purposes of this Agreement any cleared funds received by TBCC later than 10:00 a.m. (California time) on any Business Day shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue. Borrower's Loan Account will be credited only with the net amounts actually received in payment of Receivables, and such payments shall be credited to the Obligations in such order as TBCC shall determine in its discretion. Pending delivery to TBCC, Borrower will not commingle any Items of Payment with any of its other funds or property, but will segregate them from the other assets of Borrower and will hold them in trust and for the account and as the property of TBCC. Borrower hereby agrees to endorse any Items of Payment upon the request of TBCC.

1.5. Reserves. TBCC may, from time to time, in its Good Faith business judgment: (i) establish and modify reserves against Eligible Receivables and Eligible Inventory, (ii) modify advance rates with respect to Eligible

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TBCC Loan and Security Agreement

Receivables and Eligible Inventory, (iii) modify the standards of eligibility set forth in the definitions of Eligible Receivables and Eligible Inventory, and (iv) establish reserves against available Loans.

1.6. Term.

(a) The term of this Agreement shall be from the date of this Agreement to the Maturity Date set forth in the Schedule, unless sooner terminated in accordance with the terms of this Agreement, provided that the Maturity Date shall automatically be extended, and this Agreement shall automatically and continuously renew, for successive additional terms of one year each, unless one party gives written notice to the other, not less than sixty days prior to the next Maturity Date, that such party elects to terminate this Agreement effective on the next Maturity Date. On the Maturity Date or on any earlier termination of this Agreement Borrower shall pay in full all Obligations, and notwithstanding any termination of this Agreement all of TBCC's security interests and all of TBCC's other rights and remedies shall continue in full force and effect until payment and performance in full of all Obligations.

(b) This Agreement may be terminated prior to the Maturity Date as follows: (i) by Borrower, effective three business days after written notice of termination is given to TBCC; or (ii) by TBCC at any time after the occurrence of an Event of Default, without notice, effective immediately. If this Agreement is terminated by Borrower or by TBCC under this Section 1.6(b), Borrower shall pay to TBCC a termination fee (the "Termination Fee") in the amount shown on the Schedule. The Termination Fee shall be due and payable on the effective date of termination. Notwithstanding the foregoing, Borrower shall have no right to terminate this Agreement at any time that any principal of, or interest on any of the Loans or any other monetary Obligations are outstanding, except upon prepayment of all Obligations and the satisfaction of all other conditions set forth in the Loan Documents.

1.7. Payment Procedures. Borrower hereby authorizes TBCC to charge the Loan Account with the amount of all interest, fees, expenses and other payments to be made hereunder and under the other Loan Documents. TBCC may, but shall not be obligated to, discharge Borrower's payment obligations hereunder by so charging the Loan Account. Whenever any payment to be made hereunder is due on a day that is not a Business Day, the payment may be made on the next succeeding Business Day and such extension of time shall be included in the computation of the amount of interest due.

1.8. Conditions to Initial Loan. The obligation of TBCC to make the initial Loan is subject to the satisfaction of the following conditions prior to or concurrent with such initial Loan, and Borrower shall cause all such conditions to be satisfied by the Closing Deadline set forth in the Schedule:

(b) TBCC and its counsel shall have performed (i) a review satisfactory to TBCC of all of the Material Contracts and other assets of the Borrower, the financial condition of the Borrower, including all of its tax, litigation, environmental and other potential contingent liabilities, and the corporate and capital structure of the Borrower and (ii) a pre-closing audit and collateral review, in each case with results satisfactory to TBCC.

1.9. Conditions to Lending. The obligation of TBCC to make any Loan is

subject to the satisfaction of the following conditions precedent:

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(d) All representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct * on and as of the date of such

Loan as if then made, other than representations and warranties that expressly relate solely to an earlier date, in which case they shall have been true and correct * as of such earlier date;

*in all material respects

(e) No Default or Event of Default shall have occurred and be continuing or would result from the making of the requested Loan as of the date of such request; and

(f) No Material Adverse Effect shall have occurred.

2. INTEREST AND FEES.

2.1. Interest. Borrower shall pay TBCC interest on all outstanding Loans

and other monetary Obligations, at the interest rate set forth in the Schedule. Interest shall be payable monthly in arrears on the first Business Day of each month, and on the Maturity Date. Following the occurrence and during the continuance of any Event of Default, the interest rate applicable to all Obligations shall be increased by two percent per annum.

2.2. Fees. Borrower shall pay TBCC the fees set forth in the Schedule.

2.3. Calculations. All interest and fees under this Agreement shall be

calculated on the basis of a year of 360 days for the actual number of days elapsed in the period for which such interest or fees are payable.

2.4. Taxes. Any and all payments by Borrower under this Agreement or any

other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings and penalties, interest and all other liabilities with respect thereto, excluding in the case of TBCC, taxes imposed on its net income and franchise taxes imposed on it by the jurisdiction under the laws of which TBCC is organized or any political subdivision thereof.

3. SECURITY.

3.1. Grant of Security Interest. To secure the payment and performance when

due of all of the Obligations, Borrower hereby grants to TBCC a security interest in all of its present and future Receivables, Investment Property, Inventory, Equipment, Other Property, and other Collateral, wherever located*.

*including without limitation all stock of Subsidiaries of Borrower, except that TBCC's security interest in stock of the UK Sub, as defined in the Schedule, shall be limited to 65% of such stock. Borrower shall, concurrently, deliver certificates evidencing all such stock with duly executed stock powers with respect thereto.

3.2. Other Liens; Location of Collateral. Borrower represents, warrants and

covenants that all of the Collateral is, and will at all times continue to be, free and clear of all Liens, other than Permitted Liens and Liens in favor of TBCC. All Collateral is and will continue to be maintained at the locations shown on the Schedule.

3.3. Receivables.

(a) Schedules and Other Actions. As often as requested by TBCC, Borrower

shall execute and deliver to TBCC written schedules of Receivables and Eligible Receivables (but the failure to execute or deliver any schedule shall not affect or limit TBCC's security interest in all Receivables). On TBCC's request, Borrower shall also furnish to TBCC copies of invoices to customers and shipping and delivery receipts. Borrower shall deliver to TBCC the originals of all letters of credit, notes, and instruments in its favor and such endorsements or assignments as TBCC may reasonably request and, upon the request of TBCC, Borrower shall deliver to TBCC all certificated securities with respect to any

Investment Property, with all necessary indorsements, and obtain such account control agreements with securities intermediaries and take such other action with respect to any Investment Property, as TBCC shall request, in form and substance satisfactory to TBCC. Upon request of TBCC Borrower additionally shall obtain consents from any letter of credit issuers with respect to the assignment to TBCC of any letter of credit proceeds.

(b) Records, Collections. Borrower shall report all customer credits to

TBCC, on the regular reports to TBCC in the form from time to time specified by TBCC. Borrower shall notify TBCC of all returns and recoveries of merchandise and of all claims asserted with respect to merchandise, on its regular reports to TBCC. Borrower shall not settle or adjust any dispute or claim, or grant any discount, credit or allowance or accept any return of merchandise, except in the ordinary course of its business, without TBCC's prior written consent.

(c) Representations. Borrower represents and warrants to TBCC that each

Receivable with respect to which Loans are requested by Borrower shall, on the date each Loan is requested and made, represent an undisputed, bona fide, existing, unconditional obligation of the account debtor created by the sale, delivery, and acceptance of goods, the licensing of software or the rendition of services, in the ordinary course of Borrower's business, and meet the Minimum Eligibility Requirements set forth in Section 9.1(n) below.

3.4. Inventory. A physical verification of all Inventory wherever located

will be taken by Borrower at least every twelve months and, in any case, as often as reasonably requested by TBCC and a copy of such physical verification shall be promptly submitted to TBCC. Borrower shall also submit to TBCC a copy of the annual physical Inventory as observed and tested by its public accountants in accordance with generally accepted auditing standards and GAAP. If so requested by TBCC, Borrower shall execute and deliver to TBCC, a confirmatory written instrument, in form and substance satisfactory to TBCC, listing all its Inventory, but any failure to execute or deliver the same shall not affect or limit TBCC's security interest in and to the Inventory. Borrower shall maintain full, accurate and complete records respecting the Inventory describing the kind, type and quantity of the Inventory and Borrower's cost therefor, withdrawals therefrom and additions thereto, including a perpetual inventory for work in process and finished goods.

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3.5. Equipment. Borrower shall at all times keep correct and accurate

records itemizing and describing the location, kind, type, age and condition of the Equipment, Borrower's cost therefor and accumulated depreciation thereof and retirements, sales, or other dispositions thereof. Borrower shall keep all of its Equipment in a satisfactory state of repair and satisfactory operating condition in accordance with industry standards, ordinary wear and tear excepted. No Equipment shall be annexed or affixed to or become part of any realty, unless the owner of the realty has executed and delivered a Landlord Waiver in such form as TBCC shall specify. Where Borrower is permitted to dispose of any Equipment under this Agreement or by any consent thereto hereafter given by TBCC, Borrower shall do so at arm's length, in good faith and by obtaining the maximum amount of recovery practicable therefor and without impairing the operating integrity or value of the remaining Equipment.

3.6. Investment Property. Borrower shall have the right to retain all

Investment Property payments and distributions, unless and until a Default or an Event of Default has occurred. If a Default or an Event of Default exists, Borrower shall hold all payments on, and proceeds of, and distributions with respect to, Investment Property in trust for TBCC, and Borrower shall deliver all such payments, proceeds and distributions to TBCC, immediately upon receipt, in their original form, duly endorsed, to be applied to the Obligations in such order as TBCC shall determine. Upon the request of TBCC, any such distributions and payments with respect to any Investment Property held in any securities account shall be held and retained in such securities account as part of the Collateral.

3.7 Further Assurances. Borrower will perform any and all steps that

TBCC may reasonably request to perfect TBCC's security interests in the Collateral, including, without limitation, executing and filing financing and continuation statements in form and substance satisfactory to TBCC. TBCC is hereby authorized by Borrower to sign Borrower's name or file any financing statements or similar documents or instruments covering the Collateral whether or not Borrower's signature appears thereon. Borrower agrees, from time to time, at TBCC's request, to file notices of Liens, financing statements, similar documents or instruments, and amendments, renewals and continuations thereof, and cooperate with TBCC, in connection with the continued perfection and protection of the Collateral. If any Collateral is in the possession or control of any Person other than a public warehouseman where the warehouse receipt is in the name of or held by TBCC, Borrower shall notify such Person of TBCC's security interest therein and, upon request, instruct such Person or Persons to hold all such Collateral for the account of TBCC and subject to TBCC's instructions. If so requested by TBCC, Borrower will deliver to TBCC warehouse receipts covering any Collateral located in warehouses showing TBCC as the beneficiary thereof and will also cause the warehouseman to execute and deliver such agreements as TBCC may request relating to waivers of liens by such warehouseman and the release of the Inventory to TBCC on its demand. Borrower shall defend the Collateral against all claims and demands of all Persons.

3.8. Power of Attorney. Borrower hereby appoints and constitutes TBCC as

Borrower's attorney-in-fact (i) to request at any time from account debtors verification of information concerning Receivables and the amount owing thereon, (ii) upon the occurrence and during the continuance of an Event of Default, to convey any item of Collateral to any purchaser thereof, (iii) to give or sign Borrower's name to any notices or statements necessary or desirable to create or continue the Lien on any Collateral granted hereunder, (iv) to execute and deliver to any securities intermediary or other Person any entitlement order, account control agreement or other notice, document or instrument with respect to any Investment Property, and (v) to make any payment or take any act necessary or desirable to protect or preserve any Collateral. TBCC's authority hereunder shall include, without limitation, the authority to execute and give receipt for any certificate of ownership or any document, transfer title to any item of Collateral and take any other actions arising from or incident to the powers granted to TBCC under this Agreement. This power of attorney is coupled with an interest and is irrevocable.

4. Representations and Warranties of Borrower. Borrower represents and warrants

as follows:

4.1. Organization, Good Standing and Qualification. Borrower (i) is a

corporation duly * organized, validly existing and in good standing under the laws of the State set forth above, (ii) has the corporate power and authority to own its properties and assets and to transact the businesses in which it is engaged and (iii) is duly qualified, authorized to do business and in good standing in each jurisdiction where it is engaged in business, except to the extent that the failure to so qualify or be in good standing would not have a Material Adverse Effect.

*incorporated

4.2. Locations of Offices, Records and Collateral. The address of the

principal place of business and chief executive office of Borrower is, and the books and records of Borrower and all of its chattel paper and records relating to Collateral are maintained exclusively in the possession of Borrower at, the address of Borrower specified in the heading of this Agreement. Borrower has places of business, and Collateral is located, only at such address and at the addresses set forth in the Schedule and at any additional locations reported to TBCC as provided in Section 5.8(c) as to which TBCC has taken all necessary action to perfect and protect its security interests in the Collateral at any such locations.

4.3. Authority. Borrower has the requisite corporate power and authority to

execute, deliver and perform its obligations under each of the Loan Documents. All corporate action necessary for the execution, delivery and performance by Borrower of the Loan Documents has been taken.

4.4. Enforceability. This Agreement is, and, when executed and delivered,

each other Loan Document will be, the legal, valid and binding obligation of Borrower enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and general principles of equity.

4.5. No Conflict. The execution, delivery and performance of each Loan

Document by Borrower does not and will not contravene (i) any of the Governing Documents, (ii) any Requirement of Law or (iii) any Material Contract

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and will not result in the imposition of any Liens other than in favor of TBCC.

4.6. Consents and Filings. No consent, authorization or approval of, or

filing with or other act by, any shareholders of Borrower or any Governmental Authority or other Person is required in connection with the execution, delivery, performance, validity or enforceability of this Agreement or any other Loan Document, the consummation of the transactions contemplated hereby or thereby or the continuing operations of Borrower following such consummation, except (i) those that have been obtained or made, (ii) the filing of financing statements under the Uniform Commercial Code and (iii) any necessary filings with the U.S. Copyright Office and the U.S. Patent and Trademark Office.

4.7. Solvency. Borrower is Solvent and will be Solvent upon the completion

of all transactions contemplated to occur on or before the date of this Agreement (including, without limitation, the Loans to be made on the date of this Agreement).

4.8. Financial Data. Borrower has provided to TBCC complete and accurate

Financial Statements, which have been prepared in accordance with GAPP consistently applied throughout the periods involved and fairly present the financial position and results of operations of Borrower for each of the periods covered, subject, in the case of any quarterly financial statements, to normal year-end adjustments and the absence of notes. Borrower has no Contingent Obligation or liability for taxes, unrealized losses, unusual forward or long-term commitments or long-term leases, which is not reflected in such Financial Statements or the footnotes thereto. Since the last date covered by such Financial Statements, there has been no sale, transfer or other disposition by Borrower of any material part of its business or property and no purchase or other acquisition of any business or property (including any capital stock of any other Person) material in relation to the financial condition of Borrower at said date. Since said date, (i) there has been no change, occurrence, development or event which has had or could reasonably be expected to have a Material Adverse Effect and (ii) none of the capital stock of Borrower has been redeemed, retired, purchased or otherwise acquired for value by Borrower.

4.9. Accuracy and Completeness of Information. All data, reports and

information previously, now or hereafter furnished by or on behalf of Borrower to TBCC or the Auditors are or will be true and accurate in all material respects on the date as of which such data, reports and information are dated or certified, and not incomplete by omitting to state any material fact necessary to make such data, reports and information not materially misleading at such time. There are no facts now known to Borrower which individually or in the aggregate would reasonably be expected to have a Material Adverse Effect and which have not been disclosed in writing to TBCC.

4.10. No Joint Ventures, Partnerships or Subsidiaries. Borrower is not

engaged in any joint venture or partnership with any other Person. Borrower has no Subsidiaries*.

*except as set forth in the Schedule

4.11. Corporate and Trade Name. During the past five years, Borrower has not

been known by or used any other corporate, trade or fictitious name except for its name as set forth on the signature page of this Agreement and the other names specified in the Schedule.

4.12. No Actual or Pending Material Modification of Business. There exists

no actual or, to the best of Borrower's knowledge after due inquiry, threatened termination, cancellation or limitation of, or any modification or change in the business relationship of Borrower with any customer or group of customers whose purchases individually or in the aggregate are material to the operation of Borrower's business or with any material supplier.

4.13. No Broker's or Finder's Fees. No broker or finder brought about this

Agreement or the Loans. No broker's or finder's fees or commissions will be payable by Borrower to any Person in connection with the transactions contemplated by this Agreement.

4.14. Taxes and Tax Returns. Borrower has properly completed and timely filed

all income tax returns it is required to file. The information filed is complete and accurate in all material respects. All deductions taken in such income tax returns are appropriate and in accordance with applicable laws and regulations, except deductions that may have been disallowed but are being challenged in good faith and for which adequate reserves have been made in accordance with GAAP. All taxes, assessments, fees and other governmental charges for periods beginning prior to the date of this Agreement have been timely paid (or, if not yet due, adequate reserves therefor have been established in accordance with GAAP) and Borrower has no liability for taxes in excess of the amounts so paid or reserves so established. No deficiencies for taxes have been claimed, proposed or assessed by any taxing or other Governmental Authority against Borrower and no notice of any tax Lien has been filed. There are no pending or threatened audits, investigations or claims for or relating to any liability for taxes and there are no matters under discussion with any Governmental Authority which could result in an additional liability for taxes. No extension of a statute of limitations relating to taxes, assessments, fees or other governmental charges is in effect with respect to Borrower. Borrower is not a party to and does not have any obligations under any written tax sharing agreement or agreement regarding payments in lieu of taxes.

4.15. No Judgments or Litigation. Except as set forth in the Schedule, no

judgments, orders, writs or decrees are outstanding against Borrower, nor is there now pending or, to the knowledge of Borrower after due inquiry, threatened litigation, contested claim, investigation, arbitration, or governmental proceeding by or against Borrower that (i) could individually or in the aggregate be likely in the reasonable business judgment of TBCC to have a Material Adverse Effect or (ii) purports to affect the legality, validity or enforceability of this Agreement, any other Loan Document or the consummation of the transactions contemplated hereby or thereby.

4.16. Investments; Contracts. Borrower (i) has not committed to make any

Investment; (ii) is not a party to any indenture, agreement, contract, instrument or lease or subject to any charter, by-law or other corporate restriction or any injunction, order, restriction or decree, which would materially and adversely affect its business, operations, assets or financial condition; (iii) is not a party to any take or pay contract as to which it is the purchaser; or (iv) has no material contingent or long-term liability, including

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management contracts (excluding employment contracts of full-time individual officers or employees), which could have a Material Adverse Effect.

4.17. No Defaults; Legal Compliance. Borrower is not in default under any

term of any Material Contract or in violation of any Requirement of Law, nor is Borrower subject to any investigation with respect to a claimed violation of any

Requirement of Law.

4.18. Rights in Collateral; Priority of Liens. All Collateral is owned or

leased by Borrower, free and clear of any and all Liens in favor of third parties, other than Permitted Liens. The Liens granted to TBCC pursuant to the Loan Documents constitute valid, enforceable and perfected first-priority Liens on the Collateral, except for Permitted Liens.

4.19. Intellectual Property. Set forth in the written Representations and

Warranties of Borrower previously delivered to TBCC is a complete and accurate list of all patents, trademarks, trade names, service marks and copyrights (registered and unregistered), and all applications therefor and licenses thereof, of Borrower. Borrower owns or licenses all material patents, trademarks, service-marks, logos, tradenames, trade secrets, know-how, copyrights, or licenses and other rights with respect to any of the foregoing, which are necessary or advisable for the operation of its business as presently conducted or proposed to be conducted. To the best of its knowledge after due inquiry, Borrower has not infringed any patent, trademark, service-mark, tradename, copyright, license or other right owned by any other Person by the sale or use of any product, process, method, substance, part or other material presently contemplated to be sold or used, where such sale or use would reasonably be expected to have a Material Adverse Effect and no claim or litigation is pending, or to the best of Borrower's knowledge, threatened against or affecting Borrower that contests its right to sell or use any such product, process, method, substance, part or other material.

4.20. Labor Matters. There are no existing or threatened strikes, lockouts or

other disputes relating to any collective bargaining or similar agreement to which Borrower is a party which would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect.

4.21. Licenses and Permits. Borrower has obtained and holds in full force and

effect, all franchises, licenses, leases, permits, certificates, authorizations, qualifications, easements, rights of way and other rights and approvals which are necessary or advisable for the operation of its business as presently conducted and as proposed to be conducted, except where the failure to possess any of the foregoing (individually or in the aggregate) would not have a Material Adverse Effect.

4.22. Government Regulation. Borrower is not subject to regulation under the

Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, the Investment Company Act of 1940, or any other Requirement of Law that limits its ability to incur indebtedness or its ability to consummate the transactions contemplated by this Agreement and the other Loan Documents.

4.23. Business and Properties. The business of Borrower * affected by any

fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance) that could reasonably be expected to have a Material Adverse Effect.

*has not been

4.24. Affiliate Transactions. Borrower is not a party to or bound by any

agreement or arrangement (whether oral or written) to which any Affiliate of Borrower is a party except (i) in the ordinary course of and pursuant to the reasonable requirements of the business of Borrower and (ii) upon fair and reasonable terms no less favorable to Borrower than it could obtain in a comparable arm's-length transaction with an unaffiliated Person.

4.25. Survival of Representations. All representations made by Borrower in

this Agreement and in any other Loan Document executed and delivered by it in connection herewith shall survive the execution and delivery hereof and thereof and the closing of the transactions contemplated hereby and thereby.

5. AFFIRMATIVE COVENANTS OF THE BORROWER. Until termination of this Agreement

and payment and satisfaction of all Obligations:

5.1. Corporate Existence. Borrower shall (i) maintain its corporate

existence, (ii) maintain in full force and effect all material licenses, bonds, franchises, leases, trademarks, qualifications and authorizations to do business, and all material patents, contracts and other rights necessary or advisable to the profitable conduct of its business, and (iii) continue in, and limit its operations to, the same lines of business as presently conducted by it.

5.2. Maintenance of Property. Borrower shall keep all property useful and

necessary to its business in good working order and condition (ordinary wear and tear excepted) in accordance with its past operating practices.

5.3. Affiliate Transactions. Borrower shall conduct transactions with any of

its Affiliates on an arm's-length basis or other basis no less favorable to Borrower and which are approved by the board of directors of Borrower.

5.4. Taxes. Borrower shall pay when due (i) all tax assessments, and other

governmental charges and levies imposed against it or any of its property and (ii) all lawful claims that, if unpaid, might by law become a Lien upon its property; provided, however, that, unless such tax assessment, charge, levy or

claim has become a Lien on any of the property of Borrower, it need not be paid if it is being contested in good faith, by appropriate proceedings diligently conducted and an adequate reserve or other appropriate provision shall have been made therefor as required in accordance with GAAP.

5.5. Requirements of Law. Borrower shall comply with all Requirements of Law

applicable to it, including, without limitation, all applicable Federal, State, local or foreign laws and regulations, including, without limitation, those relating to environmental matters, employee matters, the Employee Retirement Income Security Act of 1974, and the collection, payment and deposit of employees' income, unemployment and social security taxes, provided that

Borrower shall not be deemed in violation hereof if Borrower's failure to comply with any of the foregoing would not require more than \$50,000 to cure the same.

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5.6. Insurance. Borrower shall maintain public liability insurance, business

interruption insurance, third party property damage insurance and replacement value insurance on its assets (including the Collateral) under such policies of insurance, with such insurance companies, in such amounts and covering such risks as are at all times satisfactory to TBCC in its commercially reasonable judgment, all of which policies covering the Collateral shall name TBCC as an additional insured and lender loss payee in case of loss, and contain other provisions as TBCC may reasonably require to protect fully TBCC's interest in the Collateral and any payments to be made under such policies.

5.7. Books and Records; Inspections. Borrower shall (i) maintain books and

records (including computer records) pertaining to the Collateral in such detail, form and scope as is consistent with good business practice and (ii) provide TBCC and its agents access to the premises of Borrower at any time and from time to time, during normal business hours and upon reasonable notice under the circumstances, and at any time on and after the occurrence of a Default or Event of Default, for the purposes of (A) inspecting and verifying the Collateral, (B) inspecting and copying (at Borrower's expense) any and all records pertaining thereto, and (C) discussing the affairs, finances and business of Borrower with any officer, employee or director of Borrower or with the Auditors. Borrower shall reimburse TBCC for the reasonable travel and related expenses of TBCC's employees or, at TBCC's option, of such outside

accountants or examiners as may be retained by TBCC to verify or inspect Collateral, records or documents of Borrower on a regular basis or for a special inspection if TBCC deems the same appropriate*. If TBCC's own employees are used, Borrower shall also pay therefor \$600 per person per day (or such other amount as shall represent TBCC's then current standard charge for the same), or, if outside examiners or accountants are used, Borrower shall also pay TBCC such sum as TBCC may be obligated to pay as fees therefor*.

*provided that all such expenses shall be included in the Collateral Monitoring Fee provided for in the Schedule and shall not be charged separately, unless an Event of Default has occurred and is continuing

5.8. Notification Requirements. Borrower shall give TBCC the following

notices and other documents:

(a) Notice of Defaults. Borrower shall give TBCC written notice of any

Default or Event of Default within two Business Days after becoming aware of the same.

(b) Proceedings or Adverse Changes. Borrower shall give TBCC written

notice of any of the following, promptly, and in any event within five Business Days after Borrower becomes aware of any of the following: (i) any proceeding being instituted or threatened by or against it in any federal, state, local or foreign court or before any commission or other regulatory body involving a sum, together with the sum involved in all other similar proceedings, in excess of \$50,000 in the aggregate, (ii) any order, judgment or decree being entered against Borrower or any of its properties or assets involving a sum, together with the sum of all other orders, judgments or decrees, in excess of \$50,000 in the aggregate, and (iii) any actual or prospective change, development or event which has had or could reasonably be expected to have a Material Adverse Effect.

(c) Change of Name or Chief Executive Office; Opening Additional Places of

Business. Borrower shall give TBCC at least 30 days prior written notice of any

change of Borrower's corporate name or its chief executive office or of the opening of any additional place of business.

(d) Casualty Loss. Borrower shall (i) provide written notice to TBCC,

within ten Business Days, of any material damage to, the destruction of or any other material loss to any asset or property owned or used by Borrower other than any such asset or property with a net book value (individually or in the aggregate) less than \$10,000 or any condemnation, confiscation or other taking, in whole or in part, or any event that otherwise diminishes so as to render impracticable or unreasonable the use of such asset or property owned or used by Borrower together with the amount of the damage, destruction, loss or diminution in value and (ii) diligently file and prosecute its claim or claims for any award or payment in connection with any of the foregoing.

(e) Intellectual Property. Borrower shall promptly give TBCC written

notice of any copyright registration made by it, any rights Borrower may obtain to any copyrightable works, new trademarks or any new patentable inventions, and of any renewal or extension of any trademark registration, or if it shall otherwise become entitled to the benefit of any patent or patent application or trademark or trademark application.

(f) Deposit Accounts and Security Accounts. Borrower shall promptly give

TBCC written notice of the opening of any new bank account or other deposit account, and any new securities account.

5.9. Qualify to Transact Business. Borrower shall qualify to transact

business as a foreign corporation in each jurisdiction where the nature or extent of its business or the ownership of its property requires it to be so qualified or authorized and where failure to qualify or be authorized would have a Material Adverse Effect.

5.10. Financial Reporting. Borrower shall timely deliver to TBCC the

business.

6.5. Cancellation of Debt. Borrower will not cancel any claim or debt owed

to it, except in the ordinary course of business.

6.6. Loans to Other Persons. Borrower will not at any time make loans or

advance any credit (except to trade debtors in the ordinary course of business)
to any Person in excess of \$25,000 in the aggregate at any time for all such
loans.

6.7. Liens. Borrower will not, directly or indirectly, at any time create,

incur, assume or suffer to exist any Lien on or with respect to any of the
Collateral, other than: Liens created hereunder and by any other Loan Document;
and Permitted Liens.

6.8. Dividends, Stock Redemptions. Borrower will not, directly or

indirectly, pay any dividends or distributions on, purchase, redeem or retire
any shares of any class of its capital stock or any warrants, options or rights
to purchase any such capital stock, whether now or hereafter outstanding
(Stock), or make any payment on account of or set apart assets for a sinking or
other analogous fund for, the purchase, redemption, defeasance, retirement or
other acquisition of its Stock, or make any other distribution in respect
thereof, either directly or indirectly, whether in cash or property or in
obligations of Borrower, except for dividends paid solely in stock of the
Borrower.

6.9. Investments in Other Persons. Borrower will not, directly or

indirectly, at any time make or hold any Investment in any Person (whether in
cash, securities or other property of any kind) other than Investments in Cash
Equivalents*.

*, and other than (i) existing Investments in existing wholly-owned
Subsidiaries, and (ii) new Investments in existing wholly-owned Subsidiaries in
the ordinary course of business.

6.10. Partnerships; Subsidiaries; Joint Ventures; Management Contracts.

Borrower will not at any time create any direct or indirect Subsidiary, enter
into any joint venture or similar arrangement or become a partner in any general
or limited partnership or enter into any management contract (other than an
employment contract for the employment of an officer or employee entered into in
the regular course of Borrower's business) permitting third party management
rights with respect to Borrower's business.

6.11. Fiscal Year. Borrower will not change its fiscal year.

6.12. Accounting Changes. Borrower will not at any time make or permit any

change in accounting policies or reporting practices, except as required by
GAAP.

6.13. Broker's or Finder's Fees. Borrower will not pay or incur any broker's

or finder's fees in connection with this Agreement or the transactions
contemplated hereby.

6.14. Unusual Terms of Sale. Borrower will not sell goods or products on

extended terms, consignment terms, on a progress billing or bill and hold basis,
or on any other unusual terms.

6.15. Amendments of Material Contracts. Borrower will not amend, modify,

cancel or terminate, or permit the amendment, modification, cancellation or
termination of, any Material Contract, if such amendment, modification,
cancellation or termination could have a Material Adverse Effect.

6.16. Sale and Leaseback Obligations. Borrower will not at any time create,

incur or assume any obligations as lessee for the rental of real or personal property in connection with any sale and leaseback transaction.

6.17. Acquisition of Stock or Assets. Borrower will not acquire or commit or -----
agree to acquire all or any stock, securities or assets of any other Person
other than Inventory and Equipment acquired in the ordinary course of business*.

*and other than acquisitions of new wholly-owned Subsidiaries made with TBCC's prior written consent (which shall not be unreasonably withheld). Such consent by TBCC may be conditioned on such new Subsidiary executing and delivering a Continuing Guaranty of all of the Obligations in such form as TBCC shall reasonably specify and a Security Agreement granting TBCC a first-priority security

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interest in the assets of such Subsidiary (subject to permitted liens defined in a manner comparable to that set forth in this Agreement) in such form as TBCC shall reasonably specify (together with UCC-1 financing statements, certified resolutions and other related documents in such form as TBCC shall reasonably specify.

7. EVENTS OF DEFAULT. -----

7.1. Events of Default. The occurrence of any of the following events shall -----
constitute an Event of Default:

(a) Borrower shall fail to pay any principal, interest, fees, expenses or other Obligations when payable, whether at stated maturity, by acceleration, or otherwise; or

(b) Borrower shall default in the performance or observance of any agreement, covenant, condition, provision or term contained in Section 1.1, 1.2, 1.4, 3.3, 5.7, 5.13, 6 (and its Sections and subsections), or 8.1 of this Agreement, or Borrower shall fail to perform any non-monetary Obligation which by its nature cannot be cured; or

(c) Borrower shall default in the performance or observance of any other agreement, covenant, condition, provision or term of this Agreement (other than those referred to in Section 7.1(a) above or Section 7.1(b) above) or any other Loan Document, and such failure continues uncured for a period of five Business Days after the date it occurs; or

(d) Borrower or any Guarantor shall dissolve, wind up or otherwise cease to conduct its business; or

(e) Borrower or any Guarantor shall become the subject of (i) an Insolvency Event except as set forth in clause (e) of the definition of Insolvency Event or (ii) an Insolvency Event as set forth in clause (e) of the definition of Insolvency Event that is not dismissed within sixty days; or

(f) any representation or warranty made by or on behalf of Borrower or any Guarantor to TBCC, under this Agreement or otherwise, shall be incorrect or misleading in any material respect when made or deemed made; or

(g) A change in the ownership or control * of the voting stock of the Borrower compared to such ownership on the date of this Agreement; or

*in one transaction or a series of related transactions of more than 50%

(h) any judgment or order for the payment of money shall be rendered against Borrower and shall not be stayed, vacated, bonded or discharged within thirty days; or

(i) any defined "Event of Default" shall occur under any other Loan Document; or Borrower or any Guarantor shall deny or disaffirm its obligations under any of the Loan Documents or any Liens granted in connection therewith or shall otherwise challenge any of its obligations under any of the Loan

Documents; or any Liens granted in any of the Collateral shall be determined to be void, voidable or invalid, are subordinated or are not given the priority contemplated by this Agreement; or

(j) any Loan Document shall for any reason cease to create a valid and perfected Lien on the Collateral purported to be covered thereby, of first priority (except for Permitted Liens); or

(k) the Auditors for Borrower shall deliver a Qualified opinion on any Financial Statement; or

(l) Borrower or any Guarantor (i) shall fail to pay any Indebtedness owing to TBCC under any other agreement with TBCC or note or instrument in favor of TBCC, when due (whether at scheduled maturity or by required prepayment, acceleration, demand or otherwise), or (ii) shall otherwise be in breach of or default in any of its obligations under any such agreement, note or instrument with respect to any such Indebtedness; or

(m) Borrower or any Guarantor (i) shall fail to pay any Indebtedness in excess of * owing to any Person other than TBCC or any interest or premium thereon, when due (whether at scheduled maturity or by required prepayment, acceleration, demand or otherwise), or (ii) shall otherwise be in breach or default in any of its obligations under any agreement with respect to any such Indebtedness, if the effect of such breach, default or failure to pay is to cause such Indebtedness to become due or redeemed or permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to declare such Indebtedness due or require such Indebtedness to be redeemed prior to its stated maturity; or

*\$100,000

(n) the occurrence of any event or condition that, in TBCC's * judgment, could reasonably be expected to have a Material Adverse Effect.

*reasonable

TBCC may cease making any Loans hereunder during any of the above cure periods, and thereafter if any Event of Default has occurred and is continuing.

7.2. Remedies. Upon the occurrence and during the continuance of an Event of Default, TBCC shall have all rights and remedies under applicable law and the Loan Documents, and TBCC may do any or all of the following:

(a) Declare all Obligations to be immediately due and payable (except with respect to any Event of Default with respect to Borrower set forth in Section 7.1(e), in which case all Obligations shall automatically become immediately due and payable) without presentment, demand, protest or any other action or obligation of TBCC;

(b) Cease making any Loans or other extensions of credit to Borrower of any kind;

(c) Take possession of all documents, instruments, files and records (including the copying of any computer records) relating to the Receivables or other Collateral and use (at the expense of Borrower) such supplies or space of Borrower at Borrower's places of business necessary to administer and collect the Receivables and other Collateral;

(d) Accelerate or extend the time of payment, compromise, issue credits, or bring suit on the Receivables and other Collateral (in the name of Borrower or TBCC) and otherwise administer and collect the Receivables and other Collateral;

(e) Collect, receive, dispose of and realize upon any Investment Property, including withdrawal of any and all funds from any securities accounts;

(f) Sell, assign and deliver the Receivables and other Collateral, with or without advertisement, at public or pri-

vate sale, for cash, on credit or otherwise, subject to applicable law;

(g) Foreclose on the security interests created pursuant to the Loan Documents by any available procedure, take possession of any or all of the Collateral, with or without judicial process and enter any premises where any Collateral may be located for the purpose of taking possession of or removing the same; and

(h) Bid or become a purchaser at any sale, free from any right of redemption, which right is expressly waived by Borrower, if permitted under applicable law. If notice of intended disposition of any Collateral is required by law, it is agreed that ten days' notice shall constitute reasonable notification. Borrower will assemble the Collateral and make it available at such locations as TBCC may specify, whether at the premises of Borrower or elsewhere, and will make available to TBCC the premises and facilities of Borrower for the purpose of TBCC's taking possession of or removing the Collateral or putting the Collateral in salable form.

(i) Borrower recognizes that TBCC may be unable to make a public sale of any or all of the Investment Property, by reasons of prohibitions contained in applicable securities laws or otherwise, and expressly agrees that a private sale to a restricted group of purchasers for investment and not with a view to any distribution thereof shall be considered a commercially reasonable sale. *

*Notwithstanding anything to the contrary in any Patent and Trademark Security Agreement or other agreement, TBCC shall give Borrower at least 20 days prior written notice of any foreclosure sale of Patent 151.

7.3. Receivables. Upon the occurrence and during the continuance of an Event -----

of Default, or at any time that TBCC believes in good faith that fraud has occurred or that Borrower has failed to deliver the proceeds of Receivables or other Collateral to TBCC as required by this Agreement or any other Loan Document, TBCC may (i) settle or adjust disputes or claims directly with account debtors for amounts and upon terms which it considers advisable, and (ii) notify account debtors on the Receivables and other Collateral that the Receivables and Collateral have been assigned to TBCC, and that payments in respect thereof shall be made directly to TBCC. If an Event of Default has occurred and is continuing or TBCC reasonably believes in good faith that fraud has occurred, or that Borrower has failed to deliver the proceeds of Receivables or other Collateral to TBCC as required by this Agreement or any other Loan Document, Borrower hereby irrevocably authorizes and appoints TBCC, or any Person TBCC may designate, as its attorney-in-fact, at Borrower's sole cost and expense, to exercise, all of the following powers, which are coupled with an interest and are irrevocable, until all of the Obligations have been indefeasibly paid and satisfied in full in cash: (A) to receive, take, endorse, sign, assign and deliver, all in the name of TBCC or Borrower, any and all checks, notes, drafts, and other documents or instruments relating to the Collateral; (B) to receive, open and dispose of all mail addressed to Borrower and to notify postal authorities to change the address for delivery thereof to such address as TBCC may designate; and (C) to take or bring, in the name of TBCC or Borrower, all steps, actions, suits or proceedings deemed by TBCC necessary or desirable to enforce or effect collection of Receivables and other Collateral or file and sign Borrower's name on a proof of claim in bankruptcy or similar document against any obligor of Borrower.

7.4. Right of Setoff. In addition to all rights of offset that TBCC may have -----

under applicable law, upon the occurrence and during the continuance of any Event of Default, and whether or not TBCC has made any demand or the Obligations of Borrower have matured, TBCC shall have the right to appropriate and apply to the payment of the Obligations of Borrower all deposits and other obligations then or thereafter owing by TBCC to or for the credit or the account of Borrower. In the event that TBCC exercises any of its rights under this Section, TBCC shall provide notice to Borrower of such exercise, provided that the failure to give such notice shall not affect the validity of the exercise of such rights.

7.5. License for Use of Software and Other Intellectual Property. After the -----

occurrence and during the continuance of an Event of Default, unless expressly prohibited by any licensor thereof, TBCC is hereby granted a license to use all computer software programs, data bases, processes, trademarks, tradenames and materials used by Borrower in connection with its businesses or in connection

with the Collateral.

7.6. No Marshalling; Deficiencies; Remedies Cumulative. The net cash

proceeds resulting from TBCC's exercise of any of its rights with respect to Collateral, including any and all Collections (after deducting all of TBCC's reasonable expenses related thereto), shall be applied by TBCC to such of the Obligations in such order as TBCC shall elect in its sole and absolute discretion, whether due or to become due. Borrower shall remain liable to TBCC for any deficiencies and TBCC shall remit to Borrower or its successor or assign, any surplus resulting therefrom. The remedies specified in this Agreement are cumulative, may be exercised in such order and with respect to such Collateral as TBCC may deem desirable and are not intended to be exclusive, and the full or partial exercise of any of them shall not preclude the full or partial exercise of any other available remedy under this Agreement, under any other Loan Document, at equity or at law.

7.7. Waivers. Borrower hereby waives any bonds, security or sureties

required by any statute, rule or any other law as an incident to any taking of possession by TBCC of any Collateral. Borrower also waives any damages (direct, consequential or otherwise) occasioned by the enforcement of TBCC's rights under this Agreement or any other Loan Document including the taking of possession of any Collateral or the giving of notice to any account debtor or the collection of any Receivable or other Collateral (other than damages that are the result of acts or omissions constituting gross negligence or willful misconduct of TBCC). These waivers and all other waivers provided for in this Agreement and the other Loan Documents have been negotiated by the parties and Borrower acknowledges that it has been represented by counsel of its own choice and has consulted such counsel with respect to its rights hereunder.

7.8. Right to Make Payments. In the event that Borrower shall fail to

purchase or maintain insurance required hereunder, or to pay any tax, assessment, government charge or levy, except as the same may be otherwise permitted hereunder, or in the event that any Lien prohibited hereby shall not be paid in full or discharged, or

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in the event that Borrower shall fail to perform or comply with any other covenant, promise or obligation to TBCC hereunder or under any other Loan Document, TBCC may (but shall not be required to) perform, pay, satisfy, discharge or bond the same for the account of Borrower, and all amounts so paid by TBCC shall be treated as a Loan hereunder to Borrower and shall constitute part of the Obligations.

8. ASSIGNMENTS AND PARTICIPATIONS.

8.1. Assignments. Borrower shall not assign this Agreement or any right or

obligation hereunder without the prior written consent of TBCC. TBCC may assign (without the consent of Borrower) to one or more Persons all or a portion of its rights and obligations under this Agreement and the other Loan Documents.

8.2. Participations. TBCC may sell participations in or to all or a portion

of its rights and obligations under this Agreement (including, without limitation, all or a portion of the Loans); provided, however, that TBCC's obligations under this Agreement shall remain unchanged.

8.3. Disclosure. TBCC may, in connection with any permitted assignment or

participation or proposed assignment or participation pursuant to this Agreement, disclose to the assignee or participant or proposed assignee or participant any information relating to Borrower furnished to TBCC by or on behalf of Borrower.

9. DEFINITIONS.

9.1. General Definitions. As used herein, the following terms shall have the meanings herein specified (to be equally applicable to both the singular and plural forms of the terms defined):

(a) Affiliate means as to any Person, any other Person who directly or indirectly controls, is under common control with, is controlled by or is a director or officer of such Person. As used in this definition, "control" (including its correlative meanings, "controlled by" and "under common control with") means possession, directly or indirectly, of the power to direct or cause the direction of management or policies (whether through ownership of voting securities or partnership or other ownership interests, by contract or otherwise), provided that, in any event, any Person who owns directly or indirectly twenty percent (20%) or more of the securities having ordinary voting power for the election of the members of the board of directors or other governing body of a corporation or twenty percent (20%) or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation, partnership or other Person.

(b) Agreement means this Loan and Security Agreement, as amended, supplemented or otherwise modified from time to time.

(c) Auditors means a nationally recognized firm of independent public accountants selected by Borrower and reasonably satisfactory to TBCC.

(d) Bankruptcy Code means Title 11 of the United States Code entitled "Bankruptcy," as that title may be amended from time to time, or any successor statute.

(e) Borrowing means a borrowing of Loans.

(f) Business Day means any day other than a Saturday, Sunday or any other day on which commercial banks in Chicago, Illinois are required or permitted by law to close.

(g) Cash Equivalents means (i) securities issued, guaranteed or insured by the United States or any of its agencies with maturities of not more than one year from the date acquired; (ii) certificates of deposit with maturities of not more than one year from the date acquired, issued by any U.S. federal or state chartered commercial bank of recognized standing which has capital and unimpaired surplus in excess of \$100,000,000; (iii) investments in money market funds registered under the Investment Company Act of 1940; and (iv) other instruments, commercial paper or investments acceptable to TBCC in its sole discretion.

(h) Collateral means Receivables, Investment Property, Inventory, Equipment, and Other Property, and all additions and accessions thereto and substitutions and replacements therefor and improvements thereon, and all proceeds (whether cash or other property) and products thereof, including, without limitation, all proceeds of insurance covering the same and all tort claims in connection therewith, and all records, files, computer programs and files, data and writings relating to the foregoing, and all equipment containing the foregoing.

(i) Collections means all cash, funds, checks, notes, instruments, any other form of remittance tendered by account debtors in respect of payment of Receivables and any other payments received by Borrower with respect to any other Collateral.

(j) Compliance Certificate means a certificate as to compliance with the Obligations, on TBCC's standard form (in effect from time to time).

(k) Contingent Obligation means any direct, indirect, contingent or non-

contingent guaranty or obligation for the Indebtedness of another Person, except endorsements in the ordinary course of business.

(l) Default means any of the events specified in Section 7.1, whether or

not any of the requirements for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

(m) Eligible Inventory means Inventory of Borrower which TBCC in its sole

discretion deems eligible for borrowing, based on such considerations as TBCC in its sole discretion may deem appropriate from time to time and less any such reserves as TBCC, in its sole discretion, may require. Without limiting the fact that the determination of which Inventory is eligible for borrowing is a matter of TBCC's sole discretion, the following are the minimum requirements for Inventory to be Eligible Inventory: (i) the Inventory must consist of * in good, new and salable condition which is not perishable, not obsolete or unmerchantable, and is not comprised of raw materials, work in process, packaging materials or supplies; (ii) the Inventory must meet all applicable governmental standards; (iii) the Inventory must have been manufactured in compliance with the Fair Labor Standards Act; (iv) the Inventory must conform in all respects to the warranties and representations set forth in this Agreement; (v) the Inventory must at all times be subject to TBCC's duly perfected, first priority security interest; and (vi) the Inventory must be in Borrower's exclusive possession, separately identifiable from goods of others, and situated at

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Borrower's chief executive office or at one of the other
Borrower locations set forth on the Schedule. The value of Eligible Inventory shall be computed at the lower of cost (computed on a "first in, first out" basis) or wholesale market value.

*tape decks and video cameras

(n) Eligible Receivables means and includes only those Receivables which

TBCC in its sole discretion deems eligible for borrowing, based on such considerations as TBCC in its sole discretion may deem appropriate from time to time and less any such reserves as TBCC, in its sole discretion, may require. Without limiting the fact that the determination of which Receivables are eligible for borrowing is a matter of TBCC's sole discretion, the following (the "Minimum Eligibility Requirements") are the minimum requirements for a

Receivable to be an Eligible Receivable: (i) the Receivable must not be outstanding for more than 90 days from its invoice date, (ii) the Receivable must not represent progress billings, or be due under a fulfillment or requirements contract with the account debtor, (iii) the Receivable must not be subject to any contingencies (including Receivables arising from sales on consignment, guaranteed sale or other terms pursuant to which payment by the account debtor may be conditional), (iv) the Receivable must not be owing from an account debtor with whom the Borrower has any dispute (whether or not relating to the particular Receivable), (v) the Receivable must not be owing from an Affiliate of Borrower, (vi) the Receivable must not be owing from an account debtor which is subject to any insolvency or bankruptcy proceeding, or whose financial condition is not acceptable to TBCC, or which, fails or goes out of a material portion of its business, (vii) the Receivable must not be owing from the United States or any department, agency or instrumentality thereof (unless there has been compliance, to TBCC's satisfaction, with the United States Assignment of Claims Act), (viii) the Receivable must not be owing from an account debtor located outside the United States or Canada (unless pre-approved by TBCC in its discretion in writing, or backed by a letter of credit satisfactory to TBCC, or FCIA insured satisfactory to TBCC), (ix) the Receivable must not be owing from an account debtor to whom Borrower is or may be liable for goods purchased from such account debtor or otherwise, (x) the Receivable must not violate any representation or warranty set forth in this Agreement, and (xi) the Receivable must not be one in which TBCC does not have a first-priority, valid, perfected Lien. Without limiting the generality of the foregoing, Borrower must be in compliance with all requirements of the Loan

Documents regarding registration with the U.S. Copyright Office of any copyrightable software in order for any Receivable arising from any licensing of such software to constitute an Eligible Receivable hereunder. Receivables owing from one account debtor will not be deemed Eligible Receivables to the extent they exceed 30% of the total eligible Receivables outstanding. In addition, if more than 50% of the Receivables owing from an account debtor are outstanding more than 90 days from their invoice date (without regard to unapplied credits) or are otherwise not eligible Receivables, then all Receivables owing from that account debtor will be deemed ineligible for borrowing. * TBCC may, from time to time, in its sole discretion, revise the Minimum Eligibility Requirements, upon written notice to the Borrower.

*Receivables for services which have been fully performed, but which have not yet been billed as a result of dates specified in the contract with the Account Debtor as to when during a month billings will be made, may be Eligible Receivables if they meet all of the other Minimum Eligibility Requirements and are deemed eligible for Borrower by TBCC as set forth above and are not unbilled for more than 90 days after the date the services were performed (the "Unbilled Eligible Receivables").

(o) Equipment means all machinery, equipment, furniture, fixtures,

conveyors, tools, materials, storage and handling equipment, hydraulic presses, cutting equipment, computer equipment and hardware, including central processing units, terminals, drives, memory units, printers, keyboards, screens, peripherals and input or output devices, molds, dies, stamps, vehicles, and other equipment of every kind and nature and wherever situated now or hereafter owned by Borrower or in which Borrower may have any interest as lessee or otherwise (to the extent of such interest), together with all additions and accessions thereto, all replacements and all accessories and parts therefor, all manuals, blueprints, know-how, warranties and records in connection therewith, all rights against suppliers, warrantors, manufacturers, sellers or others in connection therewith, and together with all substitutes for any of the foregoing.

(p) Event of Default means the occurrence of any of the events specified

in Section 7.1.

(q) Financial Statements means the balance sheets, profit and loss

statements, statements of cash flow, and statements of changes in intercompany accounts, if any, for the period specified, prepared in accordance with GAAP and consistent with prior practices.

(r) GAAP means generally accepted accounting principles set forth in the

opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board that are applicable to the circumstances as of the date of determination. Whenever any accounting term is used herein which is not otherwise defined, it shall be interpreted in accordance with GAAP.

(s) Good Faith means "good faith" as defined in the Uniform Commercial

Code, from time to time in effect in the State of Illinois.

(t) Governing Documents means the articles or certificate of

incorporation and by-laws of Borrower.

(u) Governmental Authority means any nation or government, any state or

other political subdivision thereof or any entity exercising executive, legislative, judicial, regulatory or administrative functions thereof or pertaining thereto.

(v) Guarantor means any present or future guarantor of any or all of the

Obligations.

(w) Indebtedness means, with respect to any Person, as of the date of

determination any indebtedness, liability or obligation of such Person

(including without limitation obligations under capital leases and Contingent Obligations).

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(x) Insolvency Event means, with respect to any Person, the occurrence

of any of the following: (a) such Person shall be adjudicated insolvent or bankrupt, or shall generally fail to pay or admit in writing its inability to pay its debts as they become due, (b) such Person shall seek dissolution or reorganization or the appointment of a receiver, trustee, custodian or liquidator for it or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, (c) such Person shall make a general assignment for the benefit of its creditors, or consent to or acquiesce in the appointment of a receiver, trustee, custodian or liquidator for a substantial portion of its property, assets or business, (d) such Person shall file a voluntary petition under any bankruptcy, insolvency or similar law or take any corporate or similar act in furtherance thereof, or (e) such Person, or a substantial portion of its property, assets or business shall become the subject of an involuntary proceeding or petition for its dissolution, reorganization, and such proceeding is not dismissed or stayed within sixty days, or the appointment of a receiver, trustee, custodian or liquidator, and such receiver is not dismissed within sixty days.

(y) Inventory means all present and future goods intended for sale,

lease or other disposition by Borrower including, without limitation, all raw materials, work in process, finished goods and other retail inventory, goods in the possession of outside processors or other third parties, goods consigned to Borrower to the extent of its interest therein as consignee, materials and supplies of any kind, nature or description which are or might be used in connection with the manufacture, packing, shipping, advertising, selling or finishing of any such goods, and all documents of title or documents representing the same.

(z) Investment in any Person means, as of the date of determination

thereof, any payment or contribution, or commitment to make a payment or contribution, by any Person including, without limitation, property contributed or committed to be contributed by any Person, on its account for or in connection with its acquisition of any stock, bonds, notes, debentures, partnership or other ownership interest or any other security of the Person in whom such Investment is made or any evidence of indebtedness by reason of a loan, advance, extension of credit, guaranty or other similar obligation for any debt, liability or indebtedness of such Person in whom the Investment is made.

(aa) Investment Property means any and all investment property of Borrower,

including all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts, and all financial assets held in any securities account or otherwise, wherever located, and whether now existing or hereafter acquired or arising.

(bb) Lien means any lien, claim, charge, pledge, security interest,

assignment, hypothecation, deed of trust, mortgage, lease, conditional sale, retention of title or other preferential arrangement having substantially the same economic effect as any of the foregoing, whether voluntary or imposed by law.

(cc) Loan Account has the meaning specified in Section 1.3.

(dd) Loan Documents means this Agreement and all present and future

documents and instruments delivered or to be delivered by Borrower or any of its Affiliates or any Guarantor under, in connection with or relating to this Agreement, as each of the same may be amended, supplemented or otherwise modified from time to time.

(ee) Loans means the loans and financial accommodations made by TBCC

hereunder.

(ff) Material Adverse Effect means (i) a material adverse effect on the

business, prospects, operations, results of operations, assets, liabilities or
condition (financial or otherwise) of Borrower*, (ii) the impairment of
Borrower's ability to perform its obligations under the Loan Documents to which
it is a party or of TBCC to enforce the Obligations or realize upon the
Collateral or (iii) a material adverse effect on the value of the Collateral or
the amount which TBCC would be likely to receive (after giving consideration to
delays in payment and costs of enforcement) in the liquidation of the
Collateral.

*and their Subsidiaries taken as a whole

(gg) Material Contract means any contract or other arrangement to which

Borrower is a party (other than the Loan Documents) for which breach,
nonperformance, cancellation or failure to renew could have a Material Adverse
Effect.

(hh) Obligations means and includes all loans (including the Loans),

advances, debts, liabilities, obligations, covenants and duties owing by
Borrower to TBCC of any kind or nature, present or future, whether or not
evidenced by any note, guaranty or other instrument, which may arise under, out
of, or in connection with, this Agreement, any other Loan Document or any other
agreement executed in connection herewith or therewith, whether or not for the
payment of money, whether arising by reason of an extension of credit, opening,
guaranteeing or confirming of a letter of credit, loan, guaranty,
indemnification or in any other manner, whether direct or indirect (including
those acquired by assignment, purchase, discount or otherwise), whether absolute
or contingent, due or to become due, now due or hereafter arising and however
acquired. The term includes, without limitation, all interest (including
interest accruing on or after an Insolvency Event, whether or not an allowed
claim), charges, expenses, commitment, facility, closing and collateral
management fees, letter of credit fees, reasonable attorneys' fees, and any
other sum properly chargeable to Borrower under this Agreement, the other Loan
Documents or any other agreement executed in connection herewith or therewith.

(ii) Other Property means all present and future: instruments, documents,

documents of title, securities, bonds, notes, promissory notes, drafts,
acceptances, letters of credit and rights to receive proceeds of letters of
credit, deposit accounts, chattel paper, certificates, insurance policies,
insurance proceeds, leases, computer tapes, causes of action, judgments, claims
against third parties, leasehold rights in any personal property, books,
ledgers, files and records, general intangibles (including without limitation,
all contract rights, tax refunds, rights to receive tax refunds, patents, patent
applications, copyrights (registered and unregistered), royalties, licenses,
permits, franchise rights, authorizations, customer lists, rights of
indemnification, contribution and subrogation, computer programs, discs and
software, trade secrets, computer service contracts, trademarks, trade names,
service marks and names, logos,

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goodwill, deposits, choses in action, designs, blueprints, plans, know-how,
telephone numbers and rights thereto, credits, reserves, and all forms of
obligations whatsoever now or hereafter owing to Borrower), all property at any
time in the possession or under the control of TBCC, and all security given by
Borrower to TBCC pursuant to any other Loan Document or agreement.

(jj) Permitted Liens means such of the following as to which no

enforcement, collection, execution, levy or foreclosure proceeding shall have
been commenced and be continuing: (i) Liens for taxes, assessments and other
governmental charges or levies or the claims or demands of landlords, carriers,
warehousemen, mechanics, laborers, materialmen and other like Persons arising by
operation of law in the ordinary course of business for sums which are not yet

due and payable, (ii) deposits or pledges to secure the payment of workmen's compensation, unemployment insurance or other social security benefits or obligations, public or statutory obligations, surety or appeal bonds, bid or performance bonds, or other obligations of a like nature incurred in the ordinary course of business (but nothing in this clause (ii) shall permit the creation of Liens on Receivables, Investment Property, Inventory or Other Property), (iii) zoning restrictions, easements, encroachments, licenses, restrictions or covenants on the use of property which do not materially impair either the use of the property in the operation of the business of Borrower or the value of the property, (iv) rights of general application reserved to or vested in any municipality or other governmental, statutory or public authority to control or regulate property, or to use property in a manner which does not materially impair the use of the property for the purposes for which it is held by Borrower, (v) state and municipal Liens for personal property taxes which are not yet due and payable, (vi) Purchase Money Liens*.

*, (vii) Liens in favor of TBCC and any of its affiliates, (viii) Liens in existence as of the date hereof and listed on Exhibit A hereto, and (ix) Liens created in connection with the refinancing of Indebtedness secured by Permitted Liens, provided that the amount of Indebtedness secured by any such Lien shall not be increased as a result of such refinancing, and provided that no such Lien shall extend to property or assets which were not encumbered by the Permitted Lien securing the Indebtedness refinanced

(kk) Person means any individual, sole proprietorship, partnership, joint

venture, limited liability company, trust, unincorporated organization, joint stock company, association, corporation, institution, entity, party or government (including any division, agency or department thereof) or any other legal entity, whether acting in an individual, fiduciary or other capacity, and, as applicable, the successors, heirs and assigns of each.

(ll) Plan means any employee benefit plan, program or arrangement

maintained or contributed to by Borrower or with respect to which it may incur liability.

(mm) Purchase Money Lien means a Lien on any item of Equipment created

substantially simultaneously with the acquisition of such Equipment for the purpose of financing such acquisition, provided that such Lien shall attach only to the Equipment acquired.

(nn) Qualification or Qualified means, with respect to any report of

Auditors covering Financial Statements, a material qualification to such report (i) resulting from a limitation on the scope of examination of such Financial Statements or the underlying data, (ii) as to the capability of Borrower to continue operations as a going concern or (iii) which could be eliminated by changes in Financial Statements or notes thereto covered by such report (such as by the creation of or increase in a reserve or a decrease in the carrying value of assets) and which if so eliminated by the making of any such change and after giving effect thereto would result in a Default or an Event of Default.

(oo) Receivables means all present and future accounts and accounts

receivable, together with all security therefor and guaranties thereof and all rights and remedies relating thereto, including any right of stoppage in transit.

(pp) Requirement of Law means (a) the Governing Documents, (b) any law,

treaty, rule, regulation, order or determination of an arbitrator, court or other Governmental Authority or (c) any franchise, license, lease, permit, certificate, authorization, qualification, easement, right of way, right or approval binding on Borrower or any of its property.

(qq) Schedule means the Schedule to this Agreement being signed

concurrently by Borrower and TBCC, as amended from time to time.

(rr) Solvent means when used with respect to any Person that as of the

date as to which such Person's solvency is to be measured: (a) the fair salable value of its assets is in excess of the total amount of its liabilities

(including contingent liabilities as valued in accordance with applicable law) as they become absolute and matured; (b) it has sufficient capital to conduct its business; and (c) it is able to meet its debts as they mature.

(ss) Subsidiary means, as to any Person, a corporation or other entity in

which that Person directly or indirectly owns or controls shares of stock or other ownership interests having ordinary voting power to elect a majority of the board of directors or appoint other managers of such corporation or other entity.

9.2. Accounting Terms and Determinations. Unless otherwise defined or

specified herein, all accounting terms used in this Agreement shall be construed in accordance with GAAP, applied on a basis consistent in all material respects with the Financial Statements delivered to TBCC on or before the date of this Agreement. All accounting determinations for purposes of determining compliance with this Agreement shall be made in accordance with GAAP as in effect on the date of this Agreement and applied on a basis consistent in all material respects with the audited Financial Statements delivered to TBCC on or before the date of this Agreement. The Financial Statements required to be delivered hereunder, and all financial records, shall be maintained in accordance with GAAP. If GAAP shall change from the basis used in preparing the audited Financial Statements delivered to TBCC on or before the date of this Agreement, the Compliance Certificates required to be delivered pursuant to this Agreement shall include calculations setting forth the adjustments necessary to demonstrate how Borrower is in compliance with the Financial Covenants (if any) based upon GAAP as in effect on the date of this Agreement.

9.3. Other Terms; Headings; Construction. Unless otherwise defined herein,

terms used herein that are defined in the Uniform Commercial Code, from time to time in

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Loan and Security Agreement

effect in the State of Illinois, shall have the meanings set forth therein. Each of the words "hereof," "herein," and "hereunder" refer to this Agreement as a whole. The term "including", whenever used in this Agreement, shall mean "including (but not limited to)". An Event of Default shall "continue" or be "continuing" unless and until such Event of Default has been waived or cured within the grace period specified therefor under Section 7.1. References to Articles, Sections, Annexes, Schedules, and Exhibits are internal references to this Agreement, and to its attachments, unless otherwise specified. The headings and any Table of Contents are for convenience only and shall not affect the meaning or construction of any provision of this Agreement. This Agreement has been fully reviewed and negotiated between the parties and no uncertainty or ambiguity in any term or provision of this Agreement shall be construed strictly against TBCC or Borrower under any rule of construction or otherwise.

10. GENERAL PROVISIONS.

10.1. GOVERNING LAW. THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS

AGREEMENT AND THE OTHER LOAN DOCUMENTS AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE GOVERNED BY THE INTERNAL LAWS AND DECISIONS OF THE STATE OF ILLINOIS.

10.2. SUBMISSION TO JURISDICTION. ALL DISPUTES BETWEEN THE BORROWER AND

TBCC, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE RESOLVED ONLY BY STATE AND FEDERAL COURTS LOCATED IN CHICAGO, ILLINOIS, AND THE COURTS TO WHICH AN APPEAL THEREFROM MAY BE TAKEN; PROVIDED, HOWEVER, THAT TBCC SHALL HAVE THE RIGHT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TO PROCEED AGAINST THE BORROWER OR ITS PROPERTY IN ANY LOCATION REASONABLY SELECTED BY TBCC IN GOOD FAITH TO ENABLE TBCC TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF TBCC. THE BORROWER AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY TBCC. THE BORROWER WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF

THE COURT IN WHICH TBCC HAS COMMENCED A PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON FORUM NON CONVENIENS.

10.3. SERVICE OF PROCESS. THE BORROWER HEREBY IRREVOCABLY DESIGNATES CT

CORPORATION SYSTEM, 1209 ORANGE STREET, WILMINGTON, DELAWARE 19801, AS THE DESIGNEE AND AGENT OF THE BORROWER TO RECEIVE, FOR AND ON BEHALF OF THE BORROWER, SERVICE OF PROCESS IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT. IT IS UNDERSTOOD THAT A COPY OF SUCH PROCESS SERVED ON SUCH AGENT AT ITS ADDRESS WILL BE PROMPTLY FORWARDED BY MAIL TO THE BORROWER, BUT THE FAILURE OF THE BORROWER TO RECEIVE SUCH COPY SHALL NOT AFFECT IN ANY WAY THE SERVICE OF SUCH PROCESS. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE LENDER TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

10.4. LIMITATION OF LIABILITY. TBCC SHALL HAVE NO LIABILITY TO THE BORROWER

(WHETHER SOUNDING IN TORT, CONTRACT, OR OTHERWISE) FOR LOSSES SUFFERED BY THE BORROWER IN CONNECTION WITH, ARISING OUT OF, OR IN ANY WAY RELATED TO THE TRANSACTIONS OR RELATIONSHIPS CONTEMPLATED BY THIS AGREEMENT, OR ANY ACT, OMISSION OR EVENT OCCURRING IN CONNECTION THEREWITH, UNLESS IT IS DETERMINED BY A FINAL AND NONAPPEALABLE JUDGMENT OR COURT ORDER BINDING ON TBCC THAT THE LOSSES WERE THE RESULT OF ACTS OR OMISSIONS CONSTITUTING GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF TBCC. THE BORROWER HEREBY WAIVES ALL FUTURE CLAIMS AGAINST TBCC FOR SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES.

10.5. Delays; Partial Exercise of Remedies. No delay or omission of TBCC to

exercise any right or remedy hereunder shall impair any such right or operate as a waiver thereof. No single or partial exercise by TBCC of any right or remedy shall preclude any other or further exercise thereof, or preclude any other right or remedy.

10.6. Notices. Except as otherwise provided herein, all notices and

correspondence hereunder shall be in writing and sent by certified or registered mail, return receipt requested, by overnight delivery service, with all charges prepaid, or by telecopier followed by a hard copy sent by regular mail, to the parties at their addresses set forth in the heading to this Agreement. All such notices and correspondence shall be deemed given (i) if sent by certified or registered mail, three Business Days after being postmarked, (ii) if sent by overnight delivery service, when received at the above stated addresses or when delivery is refused and (iii) if sent by telecopier transmission, when receipt of such transmission is acknowledged. Borrower's and TBCC's telecopier numbers for purpose of notice hereunder are set forth in the Schedule; each party's number may be changed by written notice to the other party.

10.7. Indemnification; Reimbursement of Expenses of Collection. Borrower

hereby indemnifies and agrees, whether or not any of the transactions contemplated by this Agreement or the other Loan Documents are consummated, to defend and hold harmless (on an after-tax basis) TBCC, its successors and assigns and their respective directors, officers, agents, employees, advisors, shareholders, attorneys and Affiliates (each, an "Indemnified Party") from and

against any and all losses, claims, damages, liabilities, deficiencies, obligations, fines, penalties, actions (whether threatened or existing), judgments, suits (whether threatened or existing) or expenses (including, without limitation, reasonable fees and disbursements of counsel, experts, consultants and other professionals) incurred by any of them (collectively, "Claims") (except, in the case of each Indemnified Party, to the extent that any

Claim is determined in a final and non-appealable judgment by a

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Loan and Security Agreement

court of competent jurisdiction to have directly resulted from such Indemnified Party's gross negligence or willful misconduct) arising out of or by reason of (i) any litigation, investigation, claim or proceeding which arises out of or is related to (A) Borrower, or this Agreement, any other Loan Document or the transactions contemplated hereby or thereby, (B) any actual or proposed use by

Borrower of the proceeds of the Loans, or (C) TBCC's entering into this Agreement or any other Loan Document or any other agreements and documents relating hereto, including, without limitation, amounts paid in settlement, court costs and the reasonable fees and disbursements of counsel incurred in connection with any such litigation, investigation, claim or proceeding, (ii) any remedial or other action taken by Borrower in connection with compliance by Borrower, or any of its properties, with any federal, state or local environmental laws, rules or regulations, and (iii) any pending, threatened or actual action, claim, proceeding or suit by any shareholder or director of Borrower or any actual or purported violation of Borrower's charter, by-laws or any other agreement or instrument to which Borrower is a party or by which any of its properties is bound. In addition and without limiting the generality of the foregoing, Borrower shall, upon demand, pay to TBCC all reasonable costs and expenses incurred by TBCC (including the reasonable fees and disbursements of counsel and other professionals) in connection with the preparation, execution, delivery, administration, modification and amendment of the Loan Documents, and pay to TBCC all reasonable costs and expenses (including the reasonable fees and disbursements of counsel and other professionals) paid or incurred by TBCC in order to enforce or defend any of its rights under or in respect of this Agreement, any other Loan Document or any other document or instrument now or hereafter executed and delivered in connection herewith, collect the Obligations or otherwise administer this Agreement, foreclose or otherwise realize upon the Collateral or any part thereof, prosecute actions against, or defend actions by, account debtors; commence, intervene in, or defend any action or proceeding; initiate any complaint to be relieved of the automatic stay in bankruptcy; file or prosecute any probate claim, bankruptcy claim, third-party claim, or other claim; examine, audit, copy, and inspect any of the Collateral or any of Borrower's books and records; protect, obtain possession of, lease, dispose of, or otherwise enforce TBCC's security interest in, the Collateral; and otherwise represent TBCC in any litigation relating to Borrower. Without limiting the generality of the foregoing, Borrower shall pay TBCC a fee with respect to each wire transfer in the amount of \$15 plus all bank charges and a fee of \$15 for all returned checks plus all bank charges. If either TBCC or Borrower files any lawsuit against the other predicated on a breach of this Agreement, the prevailing party in such action shall be entitled to recover its reasonable costs and attorneys' fees, including (but not limited to) reasonable attorneys' fees and costs incurred in the enforcement of, execution upon or defense of any order, decree, award or judgment. If and to the extent that the Obligations of Borrower hereunder are unenforceable for any reason, Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of the Obligations which is permissible under applicable law. Borrower's obligations under Section 2.4 and this Section shall survive any termination of this Agreement and the other Loan Documents and the payment in full of the Obligations, and are in addition to, and not in substitution of, any of the other Obligations.

10.8. Amendments and Waivers. Any provision of this Agreement or any other

Loan Document may be amended or waived if, but only if, such amendment or waiver is in writing and signed by Borrower and TBCC and then any such amendment or waiver shall be effective only to the extent set forth therein. The failure of TBCC at any time or times to require Borrower to strictly comply with any of the provisions of this Agreement or any other present or future agreement between Borrower and TBCC shall not waive or diminish any right of TBCC later to demand and receive strict compliance therewith. Any waiver of any default shall not waive or affect any other default, whether prior or subsequent, and whether or not similar. None of the provisions of this Agreement or any other agreement now or in the future executed by Borrower and delivered to TBCC shall be deemed to have been waived by any act or knowledge of TBCC or its agents or employees, but only by a specific written waiver signed by an authorized officer of TBCC and delivered to Borrower.

10.9. Counterparts; Telecopied Signatures. This Agreement and any waiver or

amendment hereto may be executed in counterparts and by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but both of which shall together constitute one and the same instrument. This Agreement and each of the other Loan Documents and any notices given in connection herewith or therewith may be executed and delivered by telecopier or other facsimile transmission all with the same force and effect as if the same was a fully executed and delivered original manual counterpart.

10.10. Severability. In case any provision in or obligation under this

Agreement or any other Loan Document shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining

provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

10.11. Joint and Several Liability. If Borrower consists of more than one

Person, their liability shall be joint and several, and the compromise of any claim with, or the release of, any Borrower shall not constitute a compromise with, or a release of, any other Borrower.

10.12. Maximum Rate. Notwithstanding anything to the contrary contained

elsewhere in this Agreement or in any other Loan Document, the parties hereto hereby agree that all agreements between them under this Agreement and the other Loan Documents, whether now existing or hereafter arising and whether written or oral, are expressly limited so that in no contingency or event whatsoever shall the amount paid, or agreed to be paid, to TBCC for the use, forbearance, or detention of the money loaned to Borrower and evidenced hereby or thereby or for the performance or payment of any covenant or obligation contained herein or therein, exceed the maximum non-usurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received on the Obligations, under the laws of the State of Illinois (or the laws of any other jurisdiction whose laws may be mandatorily applicable notwithstanding other provisions of this Agreement and the other Loan Documents), or under applicable federal laws which may presently or hereafter be in effect and which allow a higher maximum non-usurious interest rate than under the laws of the State of Illinois (or such other jurisdiction), in any case after taking into ac-

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Loan and Security Agreement

count, to the extent permitted by applicable law, any and all relevant payments or charges under this Agreement and the other Loan Documents executed in connection herewith, and any available exemptions, exceptions and exclusions (the "Highest Lawful Rate"). If due to any circumstance whatsoever, fulfillment of any provisions of this Agreement or any of the other Loan Documents at the time performance of such provision shall be due shall exceed the Highest Lawful Rate, then, automatically, the obligation to be fulfilled shall be modified or reduced to the extent necessary to limit such interest to the Highest Lawful Rate, and if from any such circumstance TBCC should ever receive anything of value deemed interest by applicable law which would exceed the Highest Lawful Rate, such excessive interest shall be applied to the reduction of the principal amount then outstanding hereunder or on account of any other then outstanding Obligations and not to the payment of interest, or if such excessive interest exceeds the principal unpaid balance then outstanding hereunder and such other then outstanding Obligations, such excess shall be refunded to Borrower. All sums paid or agreed to be paid to TBCC for the use, forbearance, or detention of the Obligations and other indebtedness of Borrower to TBCC shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness, until payment in full thereof, so that the actual rate of interest on account of all such indebtedness does not exceed the Highest Lawful Rate throughout the entire term of such indebtedness. The terms and provisions of this Section shall control every other provision of this Agreement, the other Loan Documents and all other agreements between the parties hereto.

10.13. Entire Agreement; Successors and Assigns. This Agreement and the

other Loan Documents constitute the entire agreement between the parties, supersede any prior written and verbal agreements between them, and shall bind and benefit the parties and their respective successors and permitted assigns. There are no oral understandings, oral representations or oral agreements

between the parties which are not set forth in this Agreement or in other

written agreements signed by the parties in connection herewith.

10.14. MUTUAL WAIVER OF JURY TRIAL. TBCC AND BORROWER EACH HEREBY WAIVE THE

RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (i) THIS AGREEMENT; OR (ii) ANY OTHER PRESENT OR

FUTURE INSTRUMENT OR AGREEMENT BETWEEN TBCC AND BORROWER; OR (iii) ANY CONDUCT, ACTS OR OMISSIONS OF TBCC OR BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH TBCC OR BORROWER; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

Borrower:

ODETICS, INC.

By /s/ Gregory A. Miner

Title COO

By: /s/ Joel Slutzky

Title: Chairman and CEO

Borrower:

ODETICS ITS, INC.

By /s/ Gregory A. Miner

Title CFO

By: /s/ Jack Johnson

Title: CEO

Borrower:

GYJR INCORPORATED

By /s/ Gregory A. Miner

Title CFO

By: /s/

Title: VP

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Loan and Security Agreement

Borrower:

MARINER NETWORKS, INC.

By /s/ Gregory A. Miner

Title CFO

By: /s/ David J. Scheel

Title: President

Borrower:

MEYER, MOHADDES ASSOCIATES, INC.

By /s/ Michael P. Meyer

Title Vice President

TBCC:

TRANSAMERICA BUSINESS CREDIT
CORPORATION

By /s/

Title Senior VP and General Manager

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Exhibit A
Existing Liens (Section 9.1(jj))

TBCC

Schedule to
Loan and Security Agreement

Borrowers: Odetics, Inc., a Delaware corporation
Odetics ITS, Inc., a California corporation
Gyyr Incorporated, a California corporation
Mariner Networks, Inc., a Delaware corporation
Meyer, Mohaddes Associates, Inc., a California corporation

Date: December 28, 1998

This Schedule is an integral part of the Loan and Security Agreement between
TRANSAMERICA BUSINESS CREDIT CORPORATION (TBCC) and the above borrower
(Borrower) of even date.

1. CREDIT LIMIT (Section 1.1):

An amount not to exceed the lesser of (1) or (2) below:

- (1) \$17,000,000 ("Dollar Limit"), at any one time
outstanding; or
- (2) an amount equal to the sum of (a), (b), (c), (d)
and (e) below:
 - (a) 85% of the amount of Borrower's Eligible
Receivables (as defined in Section 9.1(n) above)
(other than Unbilled Eligible Receivables), plus
 - (b) the lesser of (i) \$2,000,000, or (ii) 85% of
the amount of Borrower's Unbilled Eligible
Receivables (as defined in Section 9.1(n)
above), plus

(c) the lesser of (i) \$2,000,000, or (ii) 50% of the Value of Borrower's Eligible Inventory (as defined in Section 9.1(m) above), plus

(d) the lesser of (i) \$2,000,000, or (ii) 70% (the "Equipment Advance Rate") of the appraised orderly liquidation value of Eligible Equipment (as defined below), plus

(e) \$1,000,000 (the "Non-Formula Loans").

(a). UK Sub. Receivables of Borrower's subsidiary,

Odetics Europe Ltd., a UK company (the "UK Sub") may be included as Eligible Receivables, provided that (i) they meet the other requirements for Eligible Receivables, and (ii) the Guaranty and Security Agreement referred to in Section 9(a) below have been executed and delivered and are in full force and effect, and (iii) TBCC has a first-priority, perfected security interest in all such Receivables,

TRANSAMERICA

Schedule to Loan and Security Agreement

and (iv) Loans with respect to Eligible Receivables of the UK Sub shall be limited to \$1,500,000. With respect to the Eligible Receivables of the UK Sub, Receivables owing from one account debtor will not be deemed Eligible Receivables to the extent they exceed \$500,000.

(b). Value. "Value", as used above, means the lower of cost or

wholesale market value of Borrower's Eligible Inventory.

(c). Loans Separate. Loans will be made separately to each Borrower

based on the Eligible Receivables, Eligible Inventory and Eligible Equipment of each Borrower. Non-Formula Loans and Loans based on the on the Eligible Receivables of the UK Sub will be made to Odetics, Inc. (the "Parent").

(d). Equipment. "Eligible Equipment" shall mean Equipment which

TBCC in its sole discretion deems eligible for borrowing, based on such considerations as TBCC in its sole discretion may deem appropriate from time to time and less any such reserves as TBCC, in its sole discretion, may require. Without limiting the fact that the determination of which Equipment is eligible for borrowing is a matter of TBCC's sole discretion, the following are the minimum requirements for Equipment to be Eligible Equipment: (i) the Equipment must be in good condition and repair; (ii) the Equipment must meet all applicable governmental standards; (iii) the Equipment must conform in all respects to the warranties and representations set forth in this Agreement; (iv) the Equipment must at all times be subject to TBCC's duly perfected, first priority security interest; and (v) the Equipment must be in Borrower's exclusive possession, and situated at Borrower's chief executive office or at one of the other Borrower locations set forth on this Schedule.

(e). Appraisals. Appraisals of the orderly liquidation value of the

Eligible Equipment may be done from time to time, at TBCC's option, at the cost of Borrower, and by an appraiser selected by TBCC, but no more frequently than once every six-months (except that such limitation on the frequency of appraisals shall not apply if an Event of Default or an event which, with notice or passage of time or both, would constitute an Event of Default, has occurred and is continuing).

(f). Reduction in Equipment Advance Rate. The Equipment Advance Rate

shall be reduced by 23.3 percentage points on December 31, 1999

and on December 31 of each year thereafter, until it is reduced to zero. Borrower may, however, at its option, request in writing a reappraisal of the orderly liquidation value of the Eligible Equipment by giving written notice thereof to TBCC on or before November 1 of each year, and in that event the Equipment Advance Rate will not be reduced the following December 31, but the Equipment Advance Rate will be applied to the appraised orderly liquidation value of Eligible Equipment as determined by the new appraisal. Appraisals under this Section shall be at the cost of Borrower, by appraisers selected by TBCC, and such appraisals shall be satisfactory to TBCC in its discretion.

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TRANSAMERICA

Schedule to Loan and Security Agreement

Example. If the beginning appraised orderly

liquidation value of Eligible Equipment was \$2,000,000, then the Loans available under Section 1(2)(d) above would be 70% of said amount or \$1,400,000. On December 31, 1999, the Equipment Advance Rate would be reduced by 23.3 percentage points from 70% to 46.7%, and the Loans available under Section 1(2)(d) above would then be 46.7%, of \$2,000,000 or \$934,000. However, if Borrower made a written request to TBCC by November 1, 1999 for a reappraisal, then there would be no reduction in the Equipment Advance Rate. If the new appraisal of the Eligible Equipment was \$2,000,000, then the Loans available under Section 1(2)(d) above would be 70% of said \$2,000,000 or \$1,400,000.

Letter of Credit
Sublimit

TBCC, in its Good Faith business judgment, will from time to time during the term of this Agreement issue letters of credit for the account of the Borrower ("Letters of Credit"), in an aggregate amount at any one time outstanding not to exceed \$2,000,000, upon the request of the Borrower, provided that, on the date the Letters of Credit are to be issued, Borrower has available to it Loans in an amount equal to or greater than the face amount of the Letters of Credit to be issued. Prior to the issuance of any Letters of Credit, Borrower shall execute and deliver to TBCC such documentation relating thereto as TBCC shall specify (the "Letter of Credit Documentation"). Fees for the Letters of Credit shall be as provided in the Letter of Credit Documentation.

The Dollar Limit and the Loans available to Borrower under this Agreement at any time shall be reduced by the total face amount of all Letters of Credit from time to time outstanding.

2. INTEREST.
(Section 2.1):

The interest rate in effect throughout each calendar month during the term of this Agreement shall be the highest "Base Rate" in effect during such month, plus 2% per annum, provided that (i) the interest rate applicable to the Non-Formula Loans shall be the highest "Base Rate" in effect during such month, plus 4% per annum, and (ii) the interest rate in effect in each month shall not be less than 9% per annum, and (iii) the interest charged for each month shall be a minimum of \$20,000, regardless of the amount of the Obligations outstanding. Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. "Base Rate" shall mean

the higher of (a) the highest prime, base or equivalent rate of interest announced from time to time by Citibank, N.A., First National Bank of Chicago and Bank of America National Trust and Savings Association (which may not be

the lowest rate of interest charged by such bank) and (b) the published annualized rate for 90-day dealer commercial paper which appears in the "Money Rates" section of The Wall Street Journal.

3. FEES
(Section 2.2):

Loan Fees: \$170,000, payable concurrently herewith and fully earned on the date hereof, plus \$85,000 payable and fully earned on the first anniversary of the date hereof.

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TRANSAMERICA

Schedule to Loan and Security Agreement

Collateral Monitoring Fee: \$25,000 per year, payable in advance, on the date hereof and on each anniversary of the date hereof.

Termination Fee: An amount equal to \$20,000 multiplied by each month (or portion thereof) from the effective date of termination to the Maturity Date, which Termination Fee shall be payable on the date of termination, provided that no Termination Fee shall be payable if Borrower terminates this Agreement effective on the first anniversary of the date hereof and give TBCC written notice of termination at least 60 days before the first anniversary of the date hereof. Such termination shall be subject to all of the provisions of Section 1.6 above.

4. MATURITY DATE (Section 1.6): December 31, 2000 (the "Maturity Date"), subject to automatic renewal and early termination as provided in Section 1.6 above.

5. REPORTING (Section 5.10): Borrower shall provide TBCC with the following reports:

- (a). Monthly Financial Statements. Monthly unaudited financial statements, as soon as available, and in any event within 30 days after the end of each month.
- (b). Monthly Receivable Agings. Monthly Receivable agings, aged by invoice date, within 10 days after the end of each month.
- (c). Monthly Payable Agings. Monthly accounts payable agings, aged by invoice date, and outstanding or held check registers within 10 days after the end of each month.
- (d). Monthly Inventory Reports. Monthly perpetual inventory reports for the Inventory valued on a first-in, first-out basis at the lower of cost or market (in accordance with generally accepted accounting principles) or such other inventory reports as are reasonably requested by TBCC, all within 30 days after the end of each month.
- (e). Monthly Compliance Certificates. As soon as available, but not later than thirty days after the end of each month, a Compliance Certificate, with an attached schedule of calculations demonstrating compliance or indicating non-compliance with any Financial Covenants.
- (f). Quarterly Financial Statements. Quarterly

unaudited financial statements, as soon as
available, and in any event within 30 days after
the end of each fiscal quarter of Borrower.

- (g). Annual Financial Statements. As soon as

available, but not later than 90 days after the
end of the Borrower's fiscal year, (A) Borrower's
annual audited Financial Statements; (B) a
comparison in reasonable detail to the prior
year's audited Financial Statements; (C) the
Auditors' opinion without Qualification, a
Management Letter and a statement indicating that
the Auditors have not obtained knowledge of the
existence of any Default or Event of Default
during their audit; (D) a narrative

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TRANSAMERICA

Schedule to Loan and Security Agreement

discussion of Borrower's financial condition and
results of operations and the liquidity and capital
resources for such fiscal year.

6. BORROWER INFORMATION:

- (a) Prior Names of Borrower (Section 4.11): As set forth
in the Representations and Warranties of the Parent
dated September 18, 1998 (the "Representations").
- (b) Prior Trade Names of Borrower (Section 4.11): As set
forth in the Representations.
- (c) Existing Trade Names of Borrower (Section 4.11): As set
forth in the Representations.
- (d) Other Places of Business and Locations of Collateral
(Section 4.2): As set forth in the Representations.

7. FACSIMILE NUMBERS:

Borrower: (714) 780-7857

TBCC: (818) 995-9148

8. CLOSING DEADLINE (Section 1.8): December 31, 1998

9. ADDITIONAL PROVISIONS:

- (a) Guaranty. Within 21 days after the date hereof,
Borrower shall cause the UK Sub to execute and deliver
to TBCC a Continuing Guaranty, in such form as TBCC
shall specify, with respect to all of the Obligations,
and a security agreement granting TBCC a first-
priority, perfected security interest in all of the
assets of the UK Sub, in such form as TBCC shall
specify, and Borrower shall cause the UK Sub to deliver
and cause to be delivered all such certificates,
opinions and other documents and take all such other
actions in connection therewith as TBCC shall specify
in its reasonable discretion. Borrower shall cause
such Guaranty and Security Agreement to continue in
full force and effect throughout the term of this Loan
Agreement and so long as any portion of the Obligations
remains outstanding.
- (b) Copyright Filings. Concurrently, Borrower is executing
and delivering to TBCC a Security Agreement in
Copyrighted Works (the "Copyright Agreement"). Within
60 days after the date hereof, Borrower shall (i) cause
all of its computer software, the licensing of which

results in Receivables, to be registered with the United States Copyright Office, (ii) complete the Exhibits to the Copyright Agreement with all of the information called for with respect to such software, (iii) cause the Copyright Agreement to be recorded in the United States Copyright Office, and (iv) provide evidence of such recordation to TBCC.

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(c) Real Estate-Negative Pledge. Borrower shall not permit any liens or encumbrances to exist on Borrower's real property located at 1515 S. Manchester Ave., Anaheim, California, except for liens for taxes not delinquent and covenants, conditions and restrictions. Within 45 days after the date hereof, Borrower shall provide TBCC with a preliminary title report confirming the foregoing.

(d) Financial Covenants.

(1) Working Capital. As of the end of each fiscal quarter of Parent ending during the term of this Agreement, Parent shall maintain an excess of current assets over current liabilities of not less than \$10,000,000 (on a consolidated basis with its U.S. Subsidiaries). Current assets and current liabilities shall be determined in accordance with GAAP.

(2) Unsecured Indebtedness. Parent shall not permit its total outstanding trade debt (on a consolidated basis with its U.S. Subsidiaries) to exceed \$12,000,000 at any time outstanding.

(3) Secured Indebtedness. During the period from the date hereof through December 31, 1999, and during each twelve-month period thereafter, Parent (on a consolidated basis with its U.S. Subsidiaries) shall limit total Indebtedness incurred during each such period, which is secured by Permitted Liens (other than Indebtedness to TBCC), to an aggregate amount for all such Indebtedness not to exceed \$1,500,000 during each such period.

(e) Corporate Structure. Borrower represents and warrants that its corporate structure is as follows:

Odetics, Inc., a Delaware corporation, owns 100% of the issued and outstanding stock of the following Subsidiaries:

Odetics ITS, Inc., a California corporation
Gyr Incorporated, a California corporation
Mariner Networks, Inc., a Delaware corporation
Meyer, Mohaddes Associates, Inc., a California corporation
Odetics Europe Ltd., a UK company

(f) Sale of Stock or Assets.

(1) Paydown of Loans. In the event any Borrower sells

or transfers stock of any Subsidiary or transfers any of its assets outside the ordinary course of business (which sale shall be subject to Section 6.4 of this Loan Agreement as well as this Section 9(f)), then the following shall apply:

(A) Borrower shall pay to TBCC an amount equal to all outstanding Loans made with respect to all

Receivables, Inventory and Equipment, which belong to such Subsidiary or which are included in any such asset sale, to repay such Loans in full upon such sale; and

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TRANSAMERICA

Schedule to Loan and Security Agreement

(B) Borrower shall pay to TBCC an additional amount equal to the lesser of one-third of such Loan payment or an amount equal to the outstanding Non-Formula Loans, which sum shall be applied to the outstanding Non-Formula Loans; and

(C) Thereafter, the amount of Non-Formula Loans available to the Borrower shall be permanently reduced by an amount equal to one-third of the Loan Payment made under Section 9(f)(1)(A) above.

(2) Example. The following is an example of the

operation of this Section 9(f):

If Borrower sold all of the stock of Gyyr Incorporated, and the outstanding Loans with respect to the Receivables, Inventory and Equipment of Gyyr Incorporated under the formulas in Section 1 of this Schedule were \$1,500,000, then Borrower would pay to TBCC (i) \$1,500,000 to pay all outstanding Loans with respect to the Receivables, Inventory and Equipment of Gyyr Incorporated, and (ii) \$500,000 (one-third of the \$1,500,000) to be applied to the outstanding Non-Formula Loans.

If at that date the Non-Formula Loans were only \$250,000, then the payment on such Non-Formula Loans would be \$250,000 to pay them in full. Thereafter, the Non-Formula Loans would be limited to \$500,000 (i.e. \$1,000,000 minus \$500,000) (even if the amount of the Non-Formula Loans paid off was only \$250,000).

(g) Additional Equity. Without limiting any of the other conditions precedent set forth in this Agreement, prior to the first disbursement of the Loans, Borrower shall provide evidence to TBCC that it has received not less than \$2,000,000 in net cash proceeds from the issuance and sale after December 15, 1998 of Borrower's equity and/or subordinated debt securities to investors acceptable to TBCC in its discretion. Subordinated debt securities shall be fully subordinated to the Obligations on terms and conditions satisfactory to TBCC in its discretion and shall be unsecured.

Borrower:

Borrower:

ODETICS, INC.

ODETICS ITS, INC.

By /s/ Gregory A. Miner

By /s/ Gregory A. Miner

President or Vice President

President or Vice President

(Signatures continue)

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TRANSAMERICA

Schedule to Loan and Security Agreement

Borrower:

GYR INCORPORATED

By /s/ Gregory A. Miner

President or Vice President

Borrower:

MEYER, MOHADDES ASSOCIATES, INC.

By /s/ Gregory A. Miner

President or Vice President

Borrower:

MARINER NETWORKS, INC.

By /s/ Gregory A. Miner

President or Vice President

TBCC:

TRANSAMERICA BUSINESS CREDIT
CORPORATION

By /s/

Title Senior VP and General
Manager

AMENDMENT TO LOAN AGREEMENT

December __, 1998

Transamerica Business Credit Corporation
15260 Ventura Blvd. Suite 1240
Sherman Oaks, CA 91403

Gentlemen:

Reference is made to the Loan and Security Agreement between us dated December __, 1998 (the "Loan Agreement"). (Capitalized terms used in this Agreement, which are not defined, shall have the meanings set forth in the Loan Agreement. The Loan Agreement and all other present and future documents and agreements relating thereto are collectively referred to herein as the "Loan Documents".)

This will confirm our agreement to amend the Loan Agreement as follows:

1. Inventory Reports. Section 5(d) of the Schedule, titled "Monthly

Inventory Reports", is amended by changing "30 days after the end of each month" to "10 days after the end of each month".

2. Real Estate. Section 9(c) of the Schedule, titled "Real Estate-

Negative Pledge" is amended by adding the following at the end of the first sentence thereof: "and except for the existing first trust deed in favor of Northwestern Mutual Life securing not more than \$8 million. Borrower agrees not to increase the amount of the obligation secured by said first trust deed in favor of Northwestern Mutual Life or any of the terms thereof without TBCC's prior written consent.

3. Sale of Stock or Assets. Sections 9(f)(1)(B) and (C) and Section

9(f)(2) of the Schedule, are amended in their entirety to read as follows:

"(B) Borrower shall pay to TBCC an additional amount equal to the lesser of (i) one-third of the "Sold Asset Loan Availability" (as defined below), or (ii) an amount equal to the outstanding Non-Formula Loans, which sum shall be applied to the outstanding Non-Formula Loans. As used herein, "Sold Asset Loan Availability" means the total Loans available to Borrower with respect to all Receivables, Inventory and Equipment, which belong to such Subsidiary or which are included in any such asset sale (including any such Loans as are outstanding).

"(C) Thereafter, the amount of Non-Formula Loans available to the Borrower shall be permanently reduced by an amount equal to one-third of the Sold Asset Loan Availability.

"(2) Example. The following is an example of the operation of this

Section 9(f):

"If Borrower sold all of the stock of Gyyr Incorporated, and the outstanding Loans with respect to the Receivables, Inventory and Equipment of Gyyr Incorporated under the formulas in Section 1 of this Schedule were \$1,000,000, and the total Loans available with respect to the Receivables, Inventory and Equipment of Gyyr Incorporated under the formulas in Section 1 of this Schedule were \$1,500,000 (including the Loans outstanding), then Borrower would pay to TBCC (i) \$1,000,000 to pay all outstanding Loans with respect to the Receivables, Inventory and Equipment of Gyyr Incorporated, and (ii) \$500,000 (one-third of the \$1,500,000) to be applied to the outstanding Non-Formula Loans.

"If at that date the Non-Formula Loans were only \$250,000, then the payment on such Non-Formula Loans would be \$250,000 to pay them in full. Thereafter, the Non-Formula Loans would be limited to \$500,000

(i.e. \$1,000,000 minus \$500,000) (even if the amount of the Non-Formula Loans paid off was only \$250,000)."

As herein expressly modified the Loan Agreement shall continue in full force and effect and the same is hereby ratified and confirmed. This Amendment and the other written agreements and documents between us set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, oral representations, oral agreements and oral understandings between the parties with respect to the subject matter hereof. This Amendment may not be modified or amended, nor may any rights hereunder be waived, except in a writing signed by the parties hereto. This Amendment is being entered into, and shall be governed by the laws of the State of California.

Sincerely yours,

ODETICS, INC.

ODETICS ITS, INC.

By /s/ Gregory A. Miner

Title VP & COO

GYR INCORPORATED

By /s/ Gregory A. Miner

Title VP, CFO

MARINER NETWORKS, INC.

By /s/ Gregory A. Miner

Title VP, CFO

MEYER, MOHADDES ASSOCIATES, INC.

By /s/ Gregory A. Miner

Title VP, CFO

By: /s/ Gregory A. Miner

Title VP, CF

Accepted and agreed:

TRANSAMERICA BUSINESS CREDIT CORPORATION

By /s/

Title Senior Vice President, General Manager

REVOLVING CREDIT NOTE

\$17,000,000

Chicago, Illinois

December 28, 1998

FOR VALUE RECEIVED, Odetics, Inc., Odetics ITS, Inc., Gyyr Incorporated, Mariner Networks, Inc. and Meyer, Mohaddes Associates, Inc., having its chief executive office and principal place of business at 1515 S. Manchester, Anaheim, California 92802 (jointly and severally, the "Borrower"), hereby unconditionally and absolutely promises to pay to the order of TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation ("TBCC"), on the Maturity Date, at TBCC's office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018, or at such other location as TBCC may from time to time designate, in lawful money of the United States of America and in immediately available funds, the principal amount equal to \$17,000,000 or such greater or lesser amount as represents the aggregate unpaid principal amount of all Loans made by TBCC to the Borrower under the revolving credit facility made available pursuant to the Loan and Security Agreement between TBCC and Borrower dated December 28, 1998 (the "Loan Agreement"). The Borrower further promises to pay interest in like money and funds at TBCC's office specified above (or at such other location as TBCC may from time to time designate) on the unpaid principal amount hereof from time to time outstanding from and including the date hereof until paid in full (both before and after judgment) at the rates and on the dates set forth in the Loan Agreement. All capitalized terms used herein which are not defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

The holder of this Note is authorized to record the date and amount of each Loan evidenced by this Note, the date and amount of each payment or prepayment of principal hereof and the interest rate with respect thereto on a schedule attached hereto, or on a continuation of such schedule attached hereto and made a part hereof, and any such notation shall be conclusive and binding for all purposes absent manifest error; provided, however, that the failure of TBCC to

make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Loan Agreement.

Whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, the payment may be made on the next succeeding Business Day and such extension of time shall be included in the computation of the amount of interest due hereunder.

This Note is entitled to the benefit of all terms and conditions of, and the security of all security interests, liens, mortgages, deeds of trust and rights granted pursuant to, the Loan Agreement and the other Loan Documents, and is subject to optional and mandatory prepayment as provided therein.

Upon the occurrence of any one or more Events of Default, all amounts then remaining unpaid on this Note may be declared to be or may automatically become immediately due and payable as provided in the Loan Agreement.

The Borrower acknowledges that the holder of this Note may assign, transfer or sell all or a portion of its rights and interests to and under this Note to one or more Persons as provided in the Loan Agreement and that such Persons shall thereupon become vested with all of the rights and benefits of TBCC in respect hereof as to all or that portion of this Note which is so assigned, transferred or sold.

In the event of any conflict between the terms hereof and the terms and provisions of the Loan Agreement, the terms and provisions of the Loan Agreement shall control.

The Borrower and all other parties that at any time may be liable hereupon in any capacity, jointly or severally, waive presentment, demand for payment, protest and notice of dishonor of this Note and authorize the holder hereof, without notice, to increase or decrease the rate of interest on any amount owing under this Note in accordance with the Loan Agreement. The Borrower further waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Obligations and any requirement that TBCC exhaust any rights or take any action against any other Person or any collateral. The Borrower further hereby waives notice of or proof of reliance by TBCC upon this

Note, and the Obligations shall conclusively be deemed to have been created, contracted, incurred, renewed, extended, amended or waived in reliance upon this Note. The Borrower shall make all payments hereunder and under the Loan Agreement without defense, offset or counterclaim. No failure to exercise and no delay in exercising any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights. This Note may not be changed orally, but only by an agreement in writing, which is signed by the party or parties against whom enforcement of any waiver, change, modification or discharge is sought.

THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS NOTE AND THE OTHER LOAN DOCUMENTS AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE GOVERNED BY THE INTERNAL LAWS (AS OPPOSED TO THE CONFLICTS OF LAW PROVISIONS) AND DECISIONS OF THE STATE OF ILLINOIS.

ALL DISPUTES ARISING UNDER OR IN CONNECTION WITH THIS NOTE AND ANY OTHER LOAN DOCUMENT BETWEEN THE BORROWER AND TBCC, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE RESOLVED ONLY BY STATE AND FEDERAL COURTS LOCATED IN CHICAGO, ILLINOIS, AND THE COURTS TO WHICH AN APPEAL THEREFROM MAY BE TAKEN; PROVIDED, HOWEVER, THAT TBCC SHALL HAVE THE RIGHT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TO PROCEED

TBCC Revolving Credit Note

AGAINST THE BORROWER OR ITS PROPERTY IN ANY LOCATION REASONABLY SELECTED BY TBCC IN GOOD FAITH TO ENABLE TBCC TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF TBCC. THE BORROWER AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY TBCC. THE BORROWER WAIVES ANY OBJECTION THAT THE BORROWER MAY HAVE TO THE LOCATION OF THE COURT IN WHICH TBCC HAS COMMENCED A PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON FORUM NON CONVENIENS.

THE BORROWER HEREBY IRREVOCABLY DESIGNATES CT CORPORATION SYSTEM, 1209 ORANGE STREET, WILMINGTON, DELAWARE 19801 AS THE DESIGNEE AND AGENT OF THE BORROWER TO RECEIVE, FOR AND ON BEHALF OF THE BORROWER SERVICE OF PROCESS IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS NOTE OR ANY OTHER LOAN DOCUMENT. IT IS UNDERSTOOD THAT A COPY OF SUCH PROCESS SERVED ON SUCH AGENT AT ITS ADDRESS WILL BE PROMPTLY FORWARDED BY MAIL TO THE BORROWER, BUT THE FAILURE OF THE BORROWER TO RECEIVE SUCH COPY SHALL NOT AFFECT IN ANY WAY THE SERVICE OF SUCH PROCESS. NOTHING HEREIN SHALL AFFECT THE RIGHT OF TBCC TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

THE BORROWER AND, BY ITS ACCEPTANCE HEREOF, TBCC EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (i) THIS NOTE; OR (ii) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN TBCC AND BORROWER; OR (iii) ANY CONDUCT, ACTS OR OMISSIONS OF TBCC OR BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH TBCC OR BORROWER; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

Borrower:

ODETICS, INC.

Borrower:

ODETICS ITS, INC.

By: /s/ Gregory A. Miner

President or Vice President

By: /s/ Gregory A. Miner

President or Vice President

Borrower:

GYJR INCORPORATED

Borrower:

MARINER NETWORKS, INC.

By: /s/ Gregory A. Miner

President or Vice President

By: /s/ Gregory A. Miner

President or Vice President

Borrower:

MEYER, MOHADDES ASSOCIATES, INC.

By: /s/ Gregory A. Miner

President or Vice President

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TBCC

Revolving Credit Note

SCHEDULE
TO REVOLVING CREDIT NOTE
DATED DECEMBER 28, 1998

Date	Amount of Loan	Interest Rate	Amount of	Unpaid	Notation
----	-----	-----	-----	-----	-----
			Principal Paid	Principal	Made by
			-----	-----	-----
				Balance	

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TBCC

Letter of Credit Agreement

Borrowers: Odetics, Inc., a Delaware corporation
Odetics ITS, Inc., a California corporation
Gyyr Incorporated, a California corporation
Mariner Networks, Inc., a Delaware corporation
Meyer, Mohaddes Associates, Inc., a California corporation

Address: 1515 S. Manchester
Anaheim, California 92802

Date: December 28, 1998

THIS LETTER OF CREDIT AGREEMENT ("Agreement"), dated the above date, is entered into between TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation, ("TBCC") having its principal office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018 and having an office at 15260 Ventura Blvd., Suite 1240, Sherman Oaks, CA 91403 and the borrower named above ("Borrower"), in connection with the Loan and Security Agreement ("Loan Agreement") between TBCC and Borrower dated December 28, 1998. This Agreement is an integral part of the Loan Agreement, and all of the terms and provisions of the Loan Agreement are incorporated herein by this reference. (Capitalized terms used in this Agreement, which are not defined in this Agreement, shall have the meanings set forth in the Loan Agreement. This Agreement, the Loan Agreement and all other present and future documents instruments and agreements between TBCC and the Borrower are referred to herein collectively as the "Loan Documents.")

1. Letters of Credit. From time to time, in order to assist Borrower in establishing or opening Letters of Credit (the "LCs") with a bank, trust company or other issuer ("Bank") to cover the purchase of goods or for other purposes, Borrower may request that TBCC provide guarantees of, and/or indemnities with respect to, payment or performance of the LCs and/or any drafts or acceptances thereunder and/or Borrower's obligations in connection therewith (collectively, "Guarantees"). The decision to do so shall be a matter of TBCC's Good Faith business judgment, provided that TBCC shall not be obligated to provide Guarantees with respect to LCs having an expiry date later than 12 months from the date of issuance. In the event TBCC joins in such applications and/or provides Guarantees, the transactions shall be subject to the terms and conditions of this Agreement. The amount, extent, terms and conditions of the LCs and any drafts or acceptance relating thereto, shall in all respects be determined solely by TBCC and shall be subject to change, modification and revision by TBCC at any time and from time to time, in its discretion.

2. Indemnity. Borrower unconditionally agrees to indemnify, defend and hold TBCC harmless from any and all indebtedness, liabilities, obligations, losses and claims, of every sort whatsoever, however arising, whether present or future, fixed or contingent, due or to become due, paid or incurred, arising, incurred in connection with, or relating to, any LCs, applications for LCs, Guarantees, drafts or acceptances thereunder or LC Collateral (as defined below), including without limitation (i) any and all losses and claims due to any action or omission by any Bank, any errors or omissions of TBCC or any Bank, or otherwise, (ii) all amounts due or which may become due under LCs, or any drafts or acceptances thereunder, (iii) all liabilities and obligations under any steamship or airway guarantees or releases or any Guarantees, (iv) all amounts charged or chargeable to Borrower or to TBCC by any Bank, any other financial institution or any correspondent bank which opens, issues or is involved with the LCs, (v) all other bank charges, and (vi) all fees, commissions, duties, taxes, costs of insurance, and all such other charges and expenses which may pertain either directly or indirectly to any LC, draft, acceptance, or Guarantee or to the goods or documents relating thereto. Borrower's obligation to indemnify TBCC under this Agreement and Borrower's other obligations under this Agreement are referred to herein as the "LC Obligations" (which shall include, without limitation, the aggregate face

amounts of all LCs and Guarantees). Borrower's LC Obligations shall not be modified or diminished for any reason or in any manner whatsoever, shall be included in the "Obligations" (as defined in the Loan Agreement), and shall survive termination of the Loan Agreement and any other Loan Document. Without limiting the generality of the

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TBCC

Letter of Credit Agreement

foregoing, Borrower agrees that any charges made to TBCC by any Bank for Borrower's account or relating to any LC shall be conclusive on Borrower and may be charged to any of Borrower's Loan accounts with TBCC. TBCC shall have the right, at any time and without notice to Borrower, to charge any of Borrower's Loan accounts with TBCC with the amount of any and all sums due from Borrower to TBCC under this Agreement, and the same shall constitute Loans for all purposes of the Loan Documents and shall bear interest at the rate provided in the Loan Agreement. All sums payable by Borrower to TBCC under this Agreement shall be paid solely in United States dollars.

3. LC Limits. Without limiting the fact that TBCC's decisions to join in an application for an LC or issue a Guarantee are a matter of its Good Faith business judgment, the total amount of all outstanding LC Obligations shall not at any time exceed \$2,000,000 in the aggregate, and if for any reason they do, Borrower shall provide cash collateral to TBCC in an amount equal to the excess, to secure all of the Obligations, and Borrower shall execute and deliver to TBCC a pledge agreement with respect thereto on TBCC's standard form.

4. Loan Availability Reserve. Without limiting the fact that Loans under the Loan Documents are discretionary on the part of TBCC, the amount of Loans which would otherwise be available to Borrower from time to time under the lending formulas set forth in the Loan Agreement and the other Loan Documents shall be reduced by 100% of the total amount of all LC Obligations from time to time outstanding.

5. Charges. In addition to any charges, fees or expenses of any Bank or other person in connection with any LC (all of which shall be charged to Borrower's Loan account), TBCC shall be entitled to charge Borrower's Loan account with a fee in an amount equal to four percent (4%) per annum of the amount of all LC Obligations from time to time outstanding, calculated on the basis of a 360-day year for the actual number of days elapsed.

6. Security. Without limiting the security interests granted in the Loan Documents, Borrower hereby grants TBCC a security interest in the following (the "LC Collateral"), whether now owned or hereafter acquired by Borrower, wherever located, whether in transit or not, to secure all of the Obligations: all bills of lading, shipping documents, documents of title, chattel paper, invoices, cash, checks, drafts, notes, documents, warehouse, shipping and dock receipts, and other title, payment, or other instruments, and instruments, whether negotiable or not, relating to any LC, and all goods and inventory relating thereto in all stages of manufacture, process or production, and all cash and non-cash proceeds and insurance proceeds thereof of whatever sort and however arising. All references in the Loan Agreement to "Collateral" shall, for all purposes, include without limitation the LC Collateral, and all terms and provisions of the Loan Agreement applicable to Collateral shall also apply to the LC Collateral.

7. Non-Responsibility. TBCC shall not be responsible for: the existence, character, quality, quantity, condition, packing, value or delivery of the goods purporting to be represented by any documents; any difference or variation in the character, quality, quantity, condition, packing, value or delivery of the goods from that expressed in the documents; the validity, sufficiency or genuineness of any documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; the time, place, manner or order in which shipment is made; partial or incomplete shipment, or failure or omission to ship any or all of the goods referred to in the LCs or documents; any deviation from instructions, delay, default, or fraud by the shipper and/or anyone else in connection with the LC Collateral or the shipping thereof; or any breach of contract between the shipper or vendors and Borrower. Furthermore, without being limited by the foregoing, TBCC shall not be responsible for any act or omission with respect to or in connection with any LC Collateral.

8. TBCC's Authority. Borrower agrees that any action taken by TBCC, if taken in good faith, or any action taken by any Bank, under or in connection with the LCs, the Guarantees, the drafts or acceptances, or the LC Collateral, shall be binding on Borrower and shall not result in any liability of TBCC to Borrower. In furtherance thereof, TBCC shall have the full right and authority to clear and resolve any questions of non-compliance of documents; to give any instructions as to acceptance or rejection of any documents or goods; to execute any and all applications for steamship or airway guarantees, indemnities or delivery orders; to grant any extensions of the maturity of, time or payment for, or time of presentation of, any drafts, acceptances, or documents; and to agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, LCs, drafts or acceptances; all in TBCC's sole name, and the Bank shall be entitled to comply with and honor any and all such documents or instruments executed by or received solely from TBCC, all without any notice to or any consent from Borrower.

9. TBCC's Rights. Any rights, remedies, duties or obligations granted or undertaken by Borrower to any Bank in any application for LCs, or any standing agreement relating to LCs or otherwise, shall be deemed to have been granted to TBCC and apply in all respects to TBCC and shall be in addition to any rights, remedies, duties or obligations contained herein. Borrower hereby agrees that prior to the payment of all Obligations to TBCC, TBCC may be deemed to be the absolute owner of, with unqualified rights to possession and disposition of, all LC Collateral, all of which may be held by TBCC as security as herein provided. Should possession of any LC Collateral be transferred to Borrower, said LC Collateral shall continue to serve as security as herein provided, and any goods or inventory covered hereby may be sold, transferred or disposed of only as permitted by the Loan Documents.

10. Negative Covenants. Without TBCC's prior written approval, Borrower agrees not to clear or resolve any questions of non-compliance of documents; not to give any instructions as to acceptance or rejection of any documents or goods; not to execute any applications for steamship or airway guarantees, indemnities or delivery orders; not to grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances or documents; and not to agree to any amendments, renewals, extensions, modifications, changes

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TBCC

Letter of Credit Agreement

or cancellations of any of the terms or conditions of any of the applications, LCs, drafts or acceptances.

11. Affirmative Covenants. Borrower shall cause: all necessary import, export or other licenses or certificates for the import or handling of the LC Collateral to be promptly procured; all foreign and domestic governmental laws and regulations in regard to the shipment and importation of the LC Collateral, or the financing thereof to be promptly and fully complied with; and any certificates in that regard that TBCC may at any time request to be promptly furnished. In this connection, Borrower warrants and represents to TBCC that all shipments made under the LCs are and shall be in accordance with the governmental laws and regulations of the countries in which the shipments originate and terminate, and shall not be prohibited by any such laws or regulations. Borrower assumes all risk, liability and responsibility for, and agrees to pay and discharge, all present and future local, state, federal or foreign taxes, duties, and levies. Any embargo, restriction, laws, customs or regulations of any country, state, city, or other political subdivision, where the Collateral is or may be located, or wherein payments are to be made, or wherein drafts may be drawn, negotiated, accepted, or paid, shall be solely Borrower's risk, liability and responsibility.

12. Termination. Without limiting any of the terms of the Loan Agreement, on the effective date of termination of the Loan Agreement, in addition to paying and performing in full all other Obligations, Borrower shall provide cash collateral to TBCC in an amount equal to 110% of the amount of all LC Obligations, to secure all of the Obligations. Such cash collateral shall be held by TBCC in a cash collateral account which shall be in the name of TBCC and shall be under the sole dominion and control of TBCC. Borrower hereby pledges and grants to TBCC a security interest in all such cash and all interest thereon and proceeds thereof as security for all of the "Obligations" (as defined in the

Loan Agreement). Neither Borrower nor any person claiming on behalf or through Borrower shall have any right to withdraw any of the cash collateral. TBCC shall not have an obligation to invest the funds in the cash collateral account or deposit such funds in an interest-bearing account. Borrower shall execute and deliver any documentation relating to the cash collateral as TBCC shall request.

13. Default. On any failure to pay or perform any Obligation when due, or the occurrence of any other "Event of Default" (as defined in the Loan Agreement), TBCC shall have all of the rights and remedies set forth in the Loan Documents and which it otherwise has under applicable law, and without limiting the generality of the foregoing, TBCC shall have the right to require Borrower to deposit cash collateral with TBCC in an amount equal to 110% of the amount of all LC Obligations, to secure all of the Obligations, and Borrower shall execute and deliver to TBCC a pledge agreement with respect thereto on TBCC's standard form.

14. Power of Attorney. Without limiting the terms of any of the Loan Documents, Borrower hereby appoints each employee, attorney or agent of TBCC as Borrower's attorney-in-fact, with full power and authority in each of them, at TBCC's option, but without obligation, with or without notice to Borrower, in connection with any LC and any purchase agreement or other document or agreement entered into, or goods delivered, in connection therewith, at Borrower's expense, to do any or all of the following in Borrower's name or otherwise: (i) to sign or endorse all warehouse, shipping, dock or other receipts, letters of credit, notes, acceptances, checks, drafts, money orders and all other evidence of indebtedness, and all financing statements, invoices, trust receipts, bills of lading and other title documents; (ii) to complete any transaction in connection with, arising out of, or which is the subject of any LC or Guarantee, to obtain, execute and deliver all necessary or proper documents in connection therewith and to collect the proceeds thereof; (iii) upon any Event of Default under the Loan Agreement, or this Agreement, to cancel, rescind, terminate, modify, amend, or adjust, in any other way, in whole or in part, any transaction in connection with, arising out of, or which is the subject of any LC or Guarantee; and (iv) to do any and all other acts and things which may be necessary or appropriate in connection with this Agreement or any LC, or any transaction relating thereto, or to enable TBCC to obtain payment of any Obligations. The power of attorney granted hereunder is coupled with an interest and shall be irrevocable until all Obligations have been paid in full.

15. General. Without limiting any of the other provisions of this Agreement, all of the General Provisions of Section 10 of the Loan Agreement, as well as all other provisions of the Loan Agreement, are hereby incorporated herein by this reference.

16. Mutual Waiver of Jury Trial. BORROWER AND TBCC EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS AGREEMENT OR ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN TBCC AND BORROWER, OR ANY CONDUCT, ACTS OR OMISSIONS OF TBCC OR BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH TBCC OR BORROWER, IN ALL OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

Borrower:

ODETICS, INC.

By /s/ Gregory A. Miner

Title CFO

Borrower:

ODETICS ITS, INC.

By /s/ Gregory A. Miner

Title CFO

TBCC

Letter of Credit Agreement

Borrower:

GYR INCORPORATED

By /s/ Gregory A. Miner

Title CFO

Borrower:

MARINER NETWORKS, INC.

By /s/ Gregory A. Miner

Title CFO

Borrower:

MEYER, MOHADDES ASSOCIATES, INC.

By /s/ Gregory A. Miner

Title CFO

TBCC:

TRANSAMERICA BUSINESS CREDIT
CORPORATION

By /s/

Title Senior VP and General Manager

SECURITY AGREEMENT IN COPYRIGHTED WORKS

This Security Agreement In Copyrighted Works (this "Agreement") is made at Chicago, Illinois as of December 28, 1998, is entered into between ODETICS, INC., a Delaware corporation ("Grantor"), which has a mailing address at 1515 S. Manchester, Anaheim, California 92802, and TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation, ("TBCC") having its principal office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018 and having an office at 15260 Ventura Blvd., Suite 1240, Sherman Oaks, California 91403.

RECITALS

A. TBCC is providing financing to Grantor pursuant to the Loan and Security Agreement of even date herewith between TBCC and Grantor (as amended from time to time, the "Loan Agreement"). Pursuant to the Loan Agreement, Grantor has granted to TBCC a security interest in all of Grantor's present and future assets, including without limitation all of Grantor's present and future general intangibles, and including without limitation the "Copyrights" (as defined below), to secure all of its present and future indebtedness, liabilities, guaranties and other obligations to TBCC.

B. To supplement TBCC's rights in the Copyrights, Grantor is executing and delivering this Agreement.

NOW, THEREFORE, for valuable consideration, Grantor agrees as follows:

1. Assignment. To secure the complete and timely payment and performance

of all "Obligations" (as defined in the Loan Agreement), and without limiting any other security interest Grantor has granted to TBCC, Grantor hereby hypothecates to TBCC and grants, assigns, and conveys to TBCC a security interest in Grantor's entire right, title, and interest in and to all of the following, now owned and hereafter acquired (collectively, the "Collateral"):

(a) Registered Copyrights and Applications for Copyright

Registrations. All of Grantor's present and future United States registered

copyrights and copyright registrations, including, without limitation, the registered copyrights listed in Schedule A to this Agreement (and including all

of the exclusive rights afforded a copyright registrant in the United States under 17 U.S.C. (S)106 and any exclusive rights which may in the future arise by act of Congress or otherwise) and all of Grantor's present and future applications for copyright registrations (including applications for copyright registrations of derivative works and compilations) (collectively, the "Registered Copyrights"), and any and all royalties, payments, and other amounts payable to Grantor in connection with the Registered Copyrights, together with all renewals and extensions of the Registered Copyrights, the right to recover for all past, present, and future infringements of the Registered Copyrights, and all computer programs, computer databases, computer program flow diagrams, source codes, object codes and all tangible property embodying or incorporating the Registered Copyrights, and all other rights of every kind whatsoever accruing thereunder or pertaining thereto.

(b) Unregistered Copyrights. All of Grantor's present and future

copyrights which are not registered in the United States Copyright Office (the "Unregistered Copyrights"), whether now owned or hereafter acquired, including without limitation the Unregistered Copyrights listed in Schedule B to this

Agreement, and any and all royalties, payments, and other amounts payable to Grantor in connection with the Unregistered Copyrights, together with all renewals and extensions of the Unregistered Copyrights, the right to recover for all past, present, and future infringements of the Unregistered Copyrights, and all computer programs, computer databases, computer program flow diagrams, source codes, object codes and all tangible property

embodying or incorporating the Unregistered Copyrights, and all other rights of every kind whatsoever accruing thereunder or pertaining thereto. The Registered Copyrights and the Unregistered Copyrights collectively are referred to herein as the "Copyrights."

(c) Licenses. All of Grantor's right, title and interest in and to

any and all present and future license agreements with respect to the Copyrights, including without limitation the license agreements listed in Schedule C to this Agreement (the "Licenses").

(d) Accounts Receivable. All present and future accounts, accounts

receivable and other rights to payment arising from, in connection with or relating to the Copyrights.

(e) Proceeds. All cash and non-cash proceeds of any and all of the

foregoing.

2. Representations. Grantor represents and warrants that:

(a) Each of the Copyrights is valid and enforceable (except to the extent that the Unregistered Copyrights must be registered to be enforced);

(b) Except for the security interest granted hereby and the non-exclusive licenses granted to Grantor's licensees with respect to the Copyrights in the ordinary course of business of Grantor, Grantor is (and upon creation of all future Copyrights, will be) the sole and exclusive owner of the entire and unencumbered right, title, and interest in and to each of the Copyrights and other Collateral, free and clear of any liens, charges, or encumbrances;

(c) There is no pending claim that the use of any of the Copyrights does or may infringe upon or violate the rights of any third person nor does Grantor have knowledge of any pending or threatened infringement of any of the Copyrights by any third person.

(d) Listed on Schedules A and B are all copyrights owned by Grantor, in which Grantor has an interest, or which are used in Grantor's business.

(e) Listed on Schedule C are all Licenses to which Grantor is a party.

(f) Each employee, agent and/or independent contractor who has participated in the creation of the property constituting the Collateral has either executed an assignment of his or her rights of authorship to Grantor or is an employee of Grantor acting within the scope of his or her employment and was such an employee at the time of said creation.

(g) All of Grantor's present and future software, computer programs and other works of authorship subject to United States copyright protection, the sale, licensing or other disposition of which results in royalties receivable, license fees receivable, accounts receivable or other sums owing to Grantor (collectively, "Receivables"), have been and shall be registered with the United States Copyright Office prior to the date Grantor requests or accepts any loan from TBCC with respect to such Receivables and prior to the date Grantor includes any such Receivables in any accounts receivable aging, borrowing base report or certificate or other similar report provided to TBCC, and Grantor shall provide to TBCC copies of all such registrations promptly upon the receipt of the same*.

*except that Grantor shall have 60 days after the date hereof to register all of its present software with the United States Copyright Office (as provided in the Schedule to the Loan Agreement), and during such 60-day period Grantor may request and accept loans with respect to Receivables arising from the licensing of such software.

3. Covenants. Until all of the Obligations have been satisfied in full

and the Loan Agreement has terminated:

(a) Grantor shall not grant a security interest in any of the Copyrights or other Collateral to any other person and shall not enter into any agreement or take any action that is inconsistent with Grantor's obligations hereunder or Grantor's other Obligations or would impair TBCC's rights, under this Agreement or otherwise, without TBCC's prior written consent.

(b) Grantor shall ensure that each use of the Copyrights described in Section 1 of this Agreement carries a complete and accurate copyright notice.

(c) Grantor shall use its best efforts to preserve and defend Grantor's rights in the Copyrights unless Grantor, with the concurrence of TBCC, reasonably determines that a Copyright is not worth preserving or defending.

(d) Grantor shall undertake all reasonable measures to cause its employees, agents and independent contractors to assign to Grantor all rights of authorship to any copyrighted material in which Grantor has or may subsequently acquire any right or interest.

4. License Rights. Grantor may license or sublicense the Copyrights only

in the ordinary course of business and only on a non-exclusive basis, and only to the extent of Grantor's rights and subject to TBCC's security interest and Grantor's obligations under this Agreement.

5. TBCC May Supplement. Grantor authorizes TBCC to modify this Agreement

by amending Schedule A or B to include any future copyrights to be included in the Copyrights. Grantor shall from time to time update the lists of Registered Copyrights and Unregistered Copyrights on Schedules A and B and lists of License Agreements on Schedule C as Grantor obtains or acquires copyrights or grants or obtains licenses in the future. Notwithstanding the foregoing, no failure to so modify this Agreement or amend Schedules A or B or C shall in any way affect, invalidate or detract from TBCC's continuing security interest in all Copyrights, whether or not listed on Schedule A or B and all license agreements whether or not listed on Schedule C.

6. Default. Upon an Event of Default (as defined in the Loan Agreement)

TBCC shall have, in addition to all of its other rights and remedies under the Loan Agreement, all rights and remedies of a secured party under the Uniform Commercial Code (as enacted in any jurisdiction in which the Copyrights or other Collateral are located or deemed to be located) or other applicable law. Upon occurrence of an Event of Default, Grantor shall, upon request of TBCC, give written notice to all parties to the Licenses that all payments thereunder shall be made to TBCC, and TBCC may itself give such notice.

7. Fees and Expenses. On demand by TBCC, without limiting any of the

terms of the Loan Agreement, Grantor shall pay all reasonable fees, costs, and expenses (including without limitation reasonable attorneys' fees and legal expenses) incurred by TBCC in connection with (a) preparing this Agreement and all other documents relating to this Agreement, (b) consummating this transaction, (c) filing or recording any documents (including all taxes in connection therewith) in public offices; and (d) paying or discharging any taxes, counsel fees, maintenance fees, encumbrances, or other amounts in connection with protecting, maintaining, or preserving the Copyrights or defending or prosecuting any actions or proceedings arising out of or related to the Copyrights.

8. TBCC's Rights. In the event that Grantor fails to use its best efforts

to preserve and defend Grantor's rights in the Copyrights (except as permitted by paragraph 3(c) hereof) within a reasonable period of time after learning of the existence of any actual or threatened infringement thereof, upon twenty (20) days prior written notice to Grantor, TBCC shall have the right, but shall in no way be obligated to, bring suit or take any other action, in its own name or in Grantor's name, to enforce or preserve TBCC's or Grantor's rights in the Copyrights. Grantor shall at the request of TBCC and at Grantor's expense do any lawful acts and execute any documents requested by TBCC to assist with such enforcement. In the event Grantor has not taken action to enforce or preserve TBCC's and Grantor's rights in the Copyrights and TBCC

thereupon takes such action, Grantor, upon demand, shall promptly reimburse and indemnify TBCC for all costs and expenses incurred in the exercise of TBCC's or Grantor's rights under this Section 8.

9. No Waiver. No course of dealing between Grantor and TBCC, nor any

failure to exercise nor any delay in exercising, on the part of TBCC, any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement, shall operate as a waiver. No single or partial exercise of any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement by TBCC shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege by TBCC.

10. Rights Are Cumulative. All of TBCC's rights and remedies with respect

to the Copyrights and other Collateral whether established by this Agreement, the Loan Agreement, or any other documents or agreements, or by law shall be cumulative and may be exercised concurrently or in any order.

11. Copyright Office. At the request of TBCC, Grantor shall execute any

further documents necessary or appropriate to create and perfect TBCC's security interest in the Copyrights, including without limitation any documents for filing with the United States Copyright Office and/or any applicable state office. TBCC may record this Agreement, an abstract thereof, or any other document describing TBCC's interest in the Copyrights with the United States Copyright Office, at the expense of Grantor.

12. Indemnity. Grantor shall protect, defend, indemnify, and hold

harmless TBCC and TBCC's assigns from all liabilities, losses, and costs (including without limitation reasonable attorneys' fees) incurred or imposed on TBCC relating to the matters in this Agreement, including, without limitation, in connection with TBCC's defense of any infringement action brought by a third party against TBCC.

13. Severability. The provisions of this Agreement are severable. If any

provision of this Agreement is held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such provision, or part thereof, in such jurisdiction, and shall not in any manner affect such provision or part thereof in any other jurisdiction, or any other provision of this Agreement in any jurisdiction.

14. Amendments; Entire Agreement. This Agreement is subject to

modification only by a writing signed by the parties, except as provided in Section 5 of this Agreement. To the extent that any provision of this Agreement conflicts with any provision of the Loan Agreement, the provision giving TBCC greater rights or remedies shall govern, it being understood that the purpose of this Agreement is to add to, and not detract from, the rights granted to TBCC under the Loan Agreement. This Agreement, the Loan Agreement, and the documents relating thereto comprise the entire agreement of the parties with respect to the matters addressed in this Agreement.

15. Further Assurances. At TBCC's request, Grantor shall execute and

deliver to TBCC any further instruments or documentation, and perform any acts, that may be reasonably necessary or appropriate to implement this Agreement, the Loan Agreement or any other agreement, and the documents relating thereto, including without limitation any instrument or documentation reasonably necessary or appropriate to create, maintain, perfect, or effectuate TBCC's security interests in the Copyrights or other Collateral.

16. Release. At such time as Grantor shall completely satisfy all of the

Obligations and the Loan Agreement shall be terminated, TBCC shall execute and deliver to Grantor all assignments and other instruments as may be reasonably necessary or proper to terminate TBCC's security interest in the Copyrights, subject to any disposition of the Copyrights which may have been made by TBCC pursuant to this Agreement. For the purpose of this Agreement, the Obligations shall be deemed to continue if Grantor enters into any bankruptcy or similar

proceeding at a time when any amount paid to TBCC could be ordered to be repaid as a preference or pursuant to a similar theory, and shall continue until it is finally determined that no such repayment can be ordered.

17. True and Lawful Attorney. Grantor hereby appoints TBCC as Grantor's

true and lawful attorney, with full power of substitution, to do any or all of the following, in the name, place and stead of Grantor: (a) execute an abstract of this Agreement or any other document describing TBCC's interest in the Copyrights, for filing with the United States Copyright Office; (b) execute any modification of this Agreement pursuant to Section 5 of this Agreement; and (c) following an Event of Default (as defined in the Loan Agreement) execute any assignments, notices or transfer documents for purposes of transferring title or right to receive any of the Copyrights or other Collateral to any person, including without limitation TBCC.

18. Successors. The benefits and burdens of this Agreement shall inure to

the benefit of and be binding upon the respective successors and permitted assigns of the parties; provided that Grantor may not transfer any of the Collateral or any rights hereunder, without the prior written consent of TBCC, except as specifically permitted hereby.

19. Governing Law. THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS

AGREEMENT AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE GOVERNED BY THE INTERNAL LAWS AND DECISIONS OF THE STATE OF ILLINOIS. ALL DISPUTES BETWEEN THE GRANTOR AND TBCC, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE RESOLVED ONLY BY STATE AND FEDERAL COURTS LOCATED IN CHICAGO, ILLINOIS, AND THE COURTS TO WHICH AN APPEAL THEREFROM MAY BE TAKEN; PROVIDED, HOWEVER, THAT TBCC SHALL HAVE THE RIGHT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TO PROCEED AGAINST THE GRANTOR OR ITS PROPERTY IN ANY LOCATION REASONABLY SELECTED BY TBCC IN GOOD FAITH TO ENABLE TBCC TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF TBCC. THE GRANTOR AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY TBCC. THE GRANTOR WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH TBCC HAS COMMENCED A PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON FORUM NON CONVENIENS.

20. Waiver of Right to Jury Trial. TBCC AND GRANTOR EACH HEREBY WAIVE THE

RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) THIS AGREEMENT; OR (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN TBCC AND GRANTOR; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF TBCC OR GRANTOR OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH TBCC OR GRANTOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

WITNESS the execution hereof as of the date first written above.

Grantor:

ODETICS, INC.

By: /s/ Gregory A. Miner

Name (please print):

Greg Miner

Title:VP & CFO

Chairman of the Board, President, or Vice President

Accepted.

TBCC:

TRANSAMERICA BUSINESS CREDIT
CORPORATION

By: /s/

Name (please print):
Schrider

Title: Senior Vice President and General Manager

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Schedule A
to
Security Agreement in Copyrighted Works

Odetics, Inc.
Registered Copyrights

U.S. Copyrights

TITLE OF WORK/YEAR OF ----- CREATION -----	REGISTRATION NUMBER -----	USER -----
Gyyr Digiquad Operating Instruction	TX2469442	Gyyr
Operating Instructions Time Lapse Video Cassette Recorder	TX1640148	Gyyr

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Schedule B
to
Security Agreement in Copyrighted Works

Odetics, Inc.
Unregistered Copyrights
(Where No Copyright Application Is Pending)

TITLE OF WORK/YEAR OF ----- CREATION -----	REGISTRATION NUMBER -----	USER -----
Copyright to the computer program known as Bowser which was developed by IMIS during the period Oct. 1, 1997 to Sept. 12, 1998 (date of acquisition)	---	Broadcast

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Schedule C
to
Security Agreement in Copyrighted Works

Odetics, Inc.
License Agreements

None

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PATENT AND TRADEMARK SECURITY AGREEMENT

This PATENT AND TRADEMARK SECURITY AGREEMENT ("Agreement"), dated as of December 28, 1998, is entered into between ODETICS, INC., a Delaware corporation ("Grantor"), which has a mailing address at 1515 S. Manchester, Anaheim, California 92802, and TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation, ("TBCC") having its principal office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018 and having an office at 15260 Ventura Blvd., Suite 1240, Sherman Oaks, California 91403.

RECITALS

A. Grantor and TBCC are, contemporaneously herewith, entering into that certain Loan and Security Agreement ("Loan Agreement") and other instruments, documents and agreements contemplated thereby or related thereto (collectively, together with the Loan Agreement, the "Loan Documents"); and

B. Grantor is the owner of certain intellectual property, identified below, in which Grantor is granting a security interest to TBCC.

NOW THEREFORE, in consideration of the mutual promises, covenants, conditions, representations, and warranties hereinafter set forth and for other good and valuable consideration, the parties hereto mutually agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. The following terms, as used in this Agreement, have the following meanings:

"Code" means the Illinois Uniform Commercial Code, as amended and

supplemented from time to time, and any successor statute.

"Collateral" means all of the following, whether now owned or

hereafter acquired:

(i) Each of the trademarks and rights and interest which are capable of being protected as trademarks (including trademarks, service marks, designs, logos, indicia, tradenames, corporate names, company names, business names, fictitious business names, trade styles, and other source or business identifiers, and applications pertaining thereto), which are presently, or in the future may be, owned, created, acquired, or used (whether pursuant to a license or otherwise) by Grantor, in whole or in part, and all trademark rights with respect thereto throughout the world, including all proceeds thereof (including license royalties and proceeds of infringement suits), and rights to renew and extend such trademarks and trademark rights;

(ii) Each of the patents and patent applications which are presently, or in the future may be, owned, issued, acquired, or used (whether pursuant to a license or otherwise) by Grantor, in whole or in part, and all patent rights with respect thereto throughout the world, including all proceeds thereof (including license royalties and proceeds of infringement suits), foreign filing rights, and rights to extend such patents and patent rights;

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(iii) All of Grantor's right to the trademarks and trademark registrations listed on Exhibit A attached hereto, as the same may be

updated hereafter from time to time;

(iv) All of Grantor's right, title, and interest, in and to the patents and patent applications listed on Exhibit B attached hereto, as the

same may be updated hereafter from time to time;

(v) All of Grantor's right, title and interest to register trademark claims under any state or federal trademark law or regulation of any foreign country and to apply for, renew, and extend the trademark registrations and trademark rights, the right (without obligation) to sue or bring opposition or cancellation proceedings in the name of Grantor or in the name of TBCC for past, present, and future infringements of the trademarks, registrations, or trademark rights and all rights (but not obligations) corresponding thereto in the United States and any foreign country;

(vi) All of Grantor's right, title, and interest in all patentable inventions, and to file applications for patent under federal patent law or regulation of any foreign country, and to request reexamination and/or reissue of the patents, the right (without obligation) to sue or bring interference proceedings in the name of Grantor or in the name of TBCC for past, present, and future infringements of the patents, and all rights (but not obligations) corresponding thereto in the United States and any foreign country;

(vii) the entire goodwill of or associated with the businesses now or hereafter conducted by Grantor connected with and symbolized by any of the aforementioned properties and assets;

(viii) All general intangibles relating to the foregoing and all other intangible intellectual or other similar property of the Grantor of any kind or nature, associated with or arising out of any of the aforementioned properties and assets and not otherwise described above; and

(ix) All products and proceeds of any and all of the foregoing (including, without limitation, license royalties and proceeds of infringement suits) and, to the extent not otherwise included, all payments under insurance, or any indemnity, warranty, or guaranty payable by reason of loss or damage to or otherwise with respect to the Collateral.

"Obligations" means all obligations, liabilities, and indebtedness of

Grantor to TBCC, whether direct, indirect, liquidated, or contingent, and whether arising under this Agreement, the Loan Agreement, any other of the Loan Documents, or otherwise, including all reasonable costs and expenses as set forth in the Loan Agreement.

1.2 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, and the term "including" is not limiting. The words "hereof," "herein," "hereby," "hereunder," and other similar terms refer to this Agreement as a whole and not to any particular provision of this Agreement. Any initially capitalized terms used but not defined herein shall have the meaning set forth in the Loan Agreement. Any reference herein to any of the Loan Documents includes any and all alterations, amendments, extensions, modifications, renewals, or supplements thereto or thereof, as applicable. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against TBCC or Grantor, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by Grantor, TBCC, and their respective counsel, and shall be construed and interpreted according to the ordinary meaning of

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the words used so as to fairly accomplish the purposes and intentions of TBCC and Grantor. Headings have been set forth herein for convenience only, and shall not be used in the construction of this Agreement.

2. GRANT OF SECURITY INTEREST.

To secure the complete and timely payment and performance of all Obligations, and without limiting any other security interest Grantor has granted to TBCC, Grantor hereby grants, assigns, and conveys to TBCC a security interest in Grantor's entire right, title, and interest in and to the Collateral.

3. REPRESENTATIONS, WARRANTIES AND COVENANTS.

Grantor hereby represents, warrants, and covenants that:

3.1 Trademarks; Patents. A true and complete schedule setting forth all federal and state trademark registrations owned or controlled by Grantor or licensed to Grantor, together with a summary description and full information in respect of the filing or issuance thereof and expiration dates is set forth on Exhibit A; and a true and complete schedule setting forth all patent and patent applications owned or controlled by Grantor or licensed to Grantor, together with a summary description and full information in respect of the filing or issuance thereof and expiration dates is set forth on Exhibit B.

3.2 Validity; Enforceability. Each of the patents and trademarks is valid and enforceable, and Grantor is not presently aware of any past, present, or prospective claim by any third party that any of the patents or trademarks are invalid or unenforceable, or that the use of any patents or trademarks violates the rights of any third person, or of any basis for any such claims.

3.3 Title. Grantor is the sole and exclusive owner of the entire and unencumbered right, title, and interest in and to each of the patents, patent applications, trademarks, and trademark registrations, free and clear of any liens, charges, and encumbrances, including pledges, assignments, licenses, shop rights, and covenants by Grantor not to sue third persons.

3.4 Notice. Grantor has used and will continue to use proper statutory notice in connection with its use of each of the patents and trademarks.

3.5 Quality. Grantor has used and will continue to use consistent standards of high quality (which may be consistent with Grantor's past practices) in the manufacture, sale, and delivery of products and services sold or delivered under or in connection with the trademarks, including, to the extent applicable, in the operation and maintenance of its merchandising operations, and will continue to maintain the validity of the trademarks.

3.6 Perfection of Security Interest. Except for the filing of appropriate financing statements (all of which filings have been made) and filings with the United States Patent and Trademark Office necessary to perfect the security interests created hereunder, no authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required either for the grant by Grantor of the security interest hereunder or for the execution, delivery, or performance of this Agreement by Grantor or for the perfection of or the exercise by TBCC of its rights hereunder to the Collateral in the United States.

4. AFTER-ACQUIRED PATENT OR TRADEMARK RIGHTS.

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If Grantor shall obtain rights to any new trademarks, any new patentable inventions or become entitled to the benefit of any patent application or patent for any reissue, division, or continuation, of any patent, the provisions of this Agreement shall automatically apply thereto. Grantor shall give prompt notice in writing to TBCC with respect to any such new trademarks or patents, or renewal or extension of any trademark registration. Grantor shall bear any expenses incurred in connection with future patent applications or trademark registrations. Without limiting Grantor's obligation under this Section 4, Grantor authorizes TBCC to modify this Agreement by amending Exhibits A or B to

include any such new patent or trademark rights. Notwithstanding the foregoing, no failure to so modify this Agreement or amend Exhibits A or B shall in any way

affect, invalidate or detract from TBCC's continuing security interest in all Collateral, whether or not listed on Exhibit A or B.

5. LITIGATION AND PROCEEDINGS.

Grantor shall commence and diligently prosecute in its own name, as the real party in interest, for its own benefit, and its own expense, such suits, administrative proceedings, or other action for infringement or other damages as are in its reasonable business judgment necessary to protect the Collateral. Grantor shall provide to TBCC any information with respect thereto requested by TBCC. TBCC shall provide at Grantor's expense all necessary cooperation in

connection with any such suits, proceedings, or action, including, without limitation, joining as a necessary party. Following Grantor's becoming aware thereof, Grantor shall notify TBCC of the institution of, or any adverse determination in, any proceeding in the United States Patent and Trademark Office, or any United States, state, or foreign court regarding Grantor's claim of ownership in any of the patents or trademarks, its right to apply for the same, or its right to keep and maintain such patent or trademark rights.

6. POWER OF ATTORNEY.

Grantor hereby appoints TBCC as Grantor's true and lawful attorney, with full power of substitution, to do any or all of the following, in the name, place and stead of Grantor: (a) file this Agreement (or an abstract hereof) or any other document describing TBCC's interest in the Collateral with the United States Patent and Trademark Office; (b) execute any modification of this Agreement pursuant to Section 4 of this Agreement; (c) take any action and execute any instrument which TBCC may deem necessary or advisable to accomplish the purposes of this Agreement; and (d) following an Event of Default (as defined in the Loan Agreement), (i) endorse Grantor's name on all applications, documents, papers and instruments necessary for TBCC to use or maintain the Collateral; (ii) ask, demand, collect, sue for, recover, impound, receive, and give acquittance and receipts for money due or to become due under or in respect of any of the Collateral; (iii) file any claims or take any action or institute any proceedings that TBCC may deem necessary or desirable for the collection of any of the Collateral or otherwise enforce TBCC's rights with respect to any of the Collateral, and (iv) assign, pledge, convey, or otherwise transfer title in or dispose of the Collateral to any person.

7. RIGHT TO INSPECT.

Grantor grants to TBCC and its employees and agents the right to visit Grantor's plants and facilities which manufacture, inspect, or store products sold under any of the patents or trademarks, and to inspect the products and quality control records relating thereto at reasonable times during regular business hours.

8. SPECIFIC REMEDIES.

Upon the occurrence of any Event of Default (as defined in the Loan Agreement), TBCC shall have, in addition to, other rights given by law or in this Agreement, the Loan Agreement, or

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in any other Loan Document, all of the rights and remedies with respect to the Collateral of a secured party under the Code, including the following:

8.1 Notification. TBCC may notify licensees to make royalty payments on license agreements directly to TBCC;

8.2 Sale. TBCC may sell or assign the Collateral and associated goodwill at public or private sale for such amounts, and at such time or times as TBCC deems advisable. Any requirement of reasonable notice of any disposition of the Collateral shall be satisfied if such notice is sent to Grantor five (5) days prior to such disposition. Grantor shall be credited with the net proceeds of such sale only when they are actually received by TBCC, and Grantor shall continue to be liable for any deficiency remaining after the Collateral is sold or collected. If the sale is to be a public sale, TBCC shall also give notice of the time and place by publishing a notice one time at least five (5) days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held. To the maximum extent permitted by applicable law, TBCC may be the purchaser of any or all of the Collateral and associated goodwill at any public sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any public sale, to use and apply all or any part of the Obligations as a credit on account of the purchase price of any collateral payable by TBCC at such sale.

9. GENERAL PROVISIONS.

9.1 Effectiveness. This Agreement shall be binding and deemed effective when executed by Grantor and TBCC.

9.2 Notices. Except to the extent otherwise provided herein, all notices,

demands, and requests that either party is required or elects to give to the other shall be in writing and shall be governed by the notice provisions of the Loan Agreement.

9.3 No Waiver. No course of dealing between Grantor and TBCC, nor any failure to exercise nor any delay in exercising, on the part of TBCC, any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement, shall operate as a waiver. No single or partial exercise of any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement by TBCC shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege by TBCC.

9.4 Rights Are Cumulative. All of TBCC's rights and remedies with respect to the Collateral whether established by this Agreement, the Loan Agreement, or any other documents or agreements, or by law shall be cumulative and may be exercised concurrently or in any order.

9.5 Successors. The benefits and burdens of this Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties; provided that Grantor may not transfer any of the Collateral or any rights hereunder, without the prior written consent of TBCC, except as specifically permitted hereby.

9.6 Severability. The provisions of this Agreement are severable. If any provision of this Agreement is held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such provision, or part thereof, in such jurisdiction, and shall not in any manner affect such provision or part thereof in any other jurisdiction, or any other provision of this Agreement in any jurisdiction.

9.7 Entire Agreement. This Agreement is subject to modification only by a writing signed by the parties, except as provided in Section 4 of this Agreement. To the extent that any

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provision of this Agreement conflicts with any provision of the Loan Agreement, the provision giving TBCC greater rights or remedies shall govern, it being understood that the purpose of this Agreement is to add to, and not detract from, the rights granted to TBCC under the Loan Agreement. This Agreement, the Loan Agreement, and the documents relating thereto comprise the entire agreement of the parties with respect to the matters addressed in this Agreement.

9.8 Fees and Expenses. Grantor shall pay to TBCC on demand all costs and expenses that TBCC pays or incurs in connection with the negotiation, preparation, consummation, administration, enforcement, and termination of this Agreement, including: (a) reasonable attorneys' and paralegals' fees and disbursements of counsel to TBCC; (b) costs and expenses (including reasonable attorneys' and paralegals' fees and disbursements) for any amendment, supplement, waiver, consent, or subsequent closing in connection with this Agreement and the transactions contemplated hereby; (c) costs and expenses of lien and title searches; (d) taxes, fees, and other charges for filing this Agreement at the United States Patent and Trademark Office, or for filing financing statements, and continuations, and other actions to perfect, protect, and continue the security interest created hereunder; (e) sums paid or incurred to pay any amount or take any action required of Grantor under this Agreement that Grantor fails to pay or take; (f) costs and expenses of preserving and protecting the Collateral; and (g) costs and expenses (including reasonable attorneys' and paralegals' fees and disbursements) paid or incurred to enforce the security interest created hereunder, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of this Agreement, or to defend any claims made or threatened against the TBCC arising out of the transactions contemplated hereby (including preparations for the consultations concerning any such matters). The foregoing shall not be construed to limit any other provisions of this Agreement or the Loan Documents regarding costs and expenses to be paid by Grantor. The parties agree that reasonable attorneys' and paralegals' fees and costs incurred in enforcing any judgment are recoverable as a separate item in addition to fees and costs incurred in obtaining the judgment and that the recovery of such attorneys' and paralegals' fees and costs is intended to survive any judgment, and is not to be deemed merged into any judgment.

9.9 Indemnity. Grantor shall protect, defend, indemnify, and hold

harmless TBCC and TBCC's assigns from all liabilities, losses, and costs (including without limitation reasonable attorneys' fees) incurred or imposed on TBCC relating to the matters in this Agreement.

9.10 Further Assurances. At TBCC's request, Grantor shall execute and deliver to TBCC any further instruments or documentation, and perform any acts, that may be reasonably necessary or appropriate to implement this Agreement, the Loan Agreement or any other agreement, and the documents relating thereto, including without limitation any instrument or documentation reasonably necessary or appropriate to create, maintain, perfect, or effectuate TBCC's security interests in the Collateral.

9.11 Release. At such time as Grantor shall completely satisfy all of the Obligations and the Loan Agreement shall be terminated, TBCC shall execute and deliver to Grantor all assignments and other instruments as may be reasonably necessary or proper to terminate TBCC's security interest in the Collateral, subject to any disposition of the Collateral which may have been made by TBCC pursuant to this Agreement. For the purpose of this Agreement, the Obligations shall be deemed to continue if Grantor enters into any bankruptcy or similar proceeding at a time when any amount paid to TBCC could be ordered to be repaid as a preference or pursuant to a similar theory, and shall continue until it is finally determined that no such repayment can be ordered.

9.12 Governing Law. THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS AGREEMENT AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR

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OTHERWISE, SHALL BE GOVERNED BY THE INTERNAL LAWS AND DECISIONS OF THE STATE OF ILLINOIS. ALL DISPUTES BETWEEN THE GRANTOR AND TBCC, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE RESOLVED ONLY BY STATE AND FEDERAL COURTS LOCATED IN CHICAGO, ILLINOIS, AND THE COURTS TO WHICH AN APPEAL THEREFROM MAY BE TAKEN; PROVIDED, HOWEVER, THAT TBCC SHALL HAVE THE RIGHT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TO PROCEED AGAINST THE GRANTOR OR ITS PROPERTY IN ANY LOCATION REASONABLY SELECTED BY TBCC IN GOOD FAITH TO ENABLE TBCC TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF TBCC. THE GRANTOR AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY TBCC. THE GRANTOR WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH TBCC HAS COMMENCED A PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON FORUM NON CONVENIENS.

9.13 Waiver of Right to Jury Trial. TBCC AND GRANTOR EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) THIS AGREEMENT; OR (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN TBCC AND GRANTOR; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF TBCC OR GRANTOR OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH TBCC OR GRANTOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first written above.

TRANSAMERICA BUSINESS CREDIT
CORPORATION

ODETICS, INC.

By /s/ _____
Title _____

By /s/ Gregory A. Miner _____
Title CFO _____

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TBCC

Cross-Corporate Continuing Guaranty

Guarantors: Odetics, Inc.
 Odetics ITS, Inc.
 Gyyr Incorporated
 Mariner Networks, Inc.
 Meyer, Mohaddes Associates, Inc.

Borrowers: Odetics, Inc.
 Odetics ITS, Inc.
 Gyyr Incorporated
 Mariner Networks, Inc.
 Meyer, Mohaddes Associates, Inc.

Date: December 28, 1998

THIS CROSS-CORPORATE CONTINUING GUARANTY dated as of the above date (the "Guaranty"), is made by the above guarantors (jointly and severally, the "Guarantor") in favor of TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation, ("TBCC") having its principal office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018 and having an office at 15260 Ventura Blvd., Suite 1240, Sherman Oaks, California 91403, with respect to the "Indebtedness" (as defined below) of the above Borrowers (jointly and severally, the "Borrower").

1. Guaranty. In order to induce TBCC to enter into a Loan and Security

 Agreement with the Borrower or to continue to provide financing thereunder, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby (a) unconditionally and irrevocably guarantees the payment and performance when due (whether at stated maturity, by acceleration or otherwise) of all of the Indebtedness, and (b) agrees to pay any and all reasonable costs and expenses (including reasonable attorneys' fees and related expenses) incurred by TBCC in enforcing any rights under this Guaranty or in enforcing any of the Indebtedness against the Borrower. As used herein, "Indebtedness" means and includes all present and future loans (including the Loans), advances, debts, liabilities, obligations, guarantees, covenants and duties now or hereafter owing by Borrower to TBCC of any kind or nature, present or future, absolute or contingent, liquidated or unliquidated, certain or uncertain, determined or undetermined, monetary or nonmonetary, written or oral, whether Borrower may be liable individually or jointly with others, whether incurred directly to TBCC or acquired by TBCC by assignment or otherwise, or held by TBCC on behalf of others, and regardless of whether recovery thereon may be or hereafter become barred by any statute of limitations, discharged or uncollectible in any bankruptcy, insolvency or other proceeding, or otherwise unenforceable, including without limitation all indebtedness, liabilities and obligations which may arise under, out of, or in connection with, any present or future Loan and Security Agreement between Borrower and TBCC (the "Loan Agreement"), any other Loan Document or any other agreement executed in connection herewith or therewith, whether or not for the payment of money, whether arising by reason of an extension of credit, opening, guaranteeing or confirming of a letter of credit, loan, guaranty, indemnification or in any other manner, whether direct or indirect (including those acquired by assignment, purchase, discount or otherwise), whether absolute or contingent, due or to become due, now due or hereafter arising and however acquired. The term "Indebtedness" includes, without limitation, all interest (including interest accruing on or after an Insolvency Event, whether or not an allowed claim), charges, expenses, commitment, facility, closing and collateral management fees, letter of credit fees, reasonable attorneys' fees, and any other sum chargeable to Borrower under the Loan Agreement or the other Loan Documents. (Capitalized terms used in this Guaranty, which are not defined, shall have the meanings set forth in the Loan Agreement.) As used herein, the term "Borrower" shall include any successor to the business and assets of Borrower, and shall also include Borrower in its capacity as a debtor or debtor in possession under the federal Bankruptcy Code, and any trustee, custodian or receiver for Borrower or any of its assets, should Borrower hereafter become the subject of any bankruptcy or insolvency proceeding, voluntary or

involuntary; and all indebtedness, liabilities and obligations incurred by any such person shall be included in the Indebtedness guaranteed hereby. This Guaranty is given in consideration for credit and other financial accommodations which may, from time to time, be given by TBCC to Borrower in TBCC's sole discretion, but Guarantor acknowledges and agrees that acceptance by TBCC of this Guaranty shall not constitute a commitment of any kind by TBCC to extend such credit or other financial accommodation to Borrower or to permit Borrower to incur Indebtedness to TBCC. All sums due under this Guaranty shall bear interest from the date due until the date paid at the highest rate charged with respect to any of the Indebtedness

2. Guaranty Absolute. The Guarantor guarantees that the Indebtedness will be

paid and performed strictly in accordance with its terms regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of the terms or the rights of TBCC with respect thereto. The liability of the Guarantor under this Guaranty shall be absolute and unconditional irrespective of:

(a). any lack of validity or enforceability of the Loan Agreement or any other document agreement or instrument relating to Borrower (whether or not relating to the Loan Agreement), including, without limitation, this Guaranty (collectively, the "Loan Documents");

(b). any change in the time, manner or place of payment of, or in any other term of, all or any of the Indebtedness, or any amendment or waiver of any term of, or any consent to departure from, the terms of the Loan Agreement or any other Loan Document or any other document or agreement;

(c). any exchange, release or non-perfection of any collateral, or any release, amendment or waiver of any term of, or consent to departure from, any other guaranty for all or any of the Indebtedness;

(d). any failure on the part of TBCC or any other person or entity to exercise, or any delay in exercising, any right under the Loan Agreement or any other Loan Document; or

(e). any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower, the Guarantor or any other guarantor with respect to the Indebtedness (including, without limitation, all defenses based on suretyship or impairment of collateral, and all defenses that the Borrower may assert to the repayment of the Indebtedness, including, without limitation, failure of consideration, breach of warranty, fraud, statute of frauds, bankruptcy, lack of legal capacity, statute of limitations, lender liability, accord and satisfaction, and usury) or which might otherwise constitute a defense to this Guaranty and the obligations of the Guarantor under this Guaranty.

The Guarantor hereby agrees that if the Borrower or any other guarantor of all or a portion of the Indebtedness is the subject of a bankruptcy proceeding under Title 11 of the United States Code, it will not assert the pendency of such proceeding or any order entered therein as a defense to the timely payment of the Indebtedness. If any claim is ever made upon TBCC for repayment or recovery of any amount or amounts received by TBCC in payment of or on account of any of the Indebtedness, because of any claim that any such payment constituted a preferential transfer or fraudulent conveyance, or for any other reason whatsoever, and TBCC repays all or part of said amount by reason of any judgment, decree or order of any court or administrative body having jurisdiction over TBCC or any of its property, or by reason of any settlement or compromise of any such claim effected by TBCC with any such claimant (including without limitation the Borrower), then and in any such event, Guarantor agrees that any such judgment, decree, order, settlement and compromise shall be binding upon Guarantor, notwithstanding any revocation or release of this Guaranty or the cancellation of any note or other instrument evidencing any of the Indebtedness, or any release of any of the Indebtedness, and the Guarantor shall be and remain liable to TBCC under this Guaranty for the amount so repaid or recovered, to the same extent as if such amount had never originally been received by TBCC, and the provisions of this sentence shall survive, and continue in effect, notwithstanding any revocation or release of this Guaranty.

3. Waiver. The Guarantor hereby waives promptness, diligence, notice of

4. Subrogation. The Guarantor hereby irrevocably waives, to the fullest extent

permitted by law, any and all claims, rights or remedies which it may now have
or hereafter acquire against the Borrower that arise hereunder or from the
performance by it hereunder including, without limitation, any claims, rights or

TBCC Cross-Corporate Continuing Guaranty

5. Representations and Warranties. The Guarantor hereby represents and warrants as follows:

(b). **Enforceability.** This Guaranty and the other Loan Documents to

(c). No Conflicts. The execution, delivery and performance of this

(d). No Consents. No consent of any other Person and no consent,

license, permit, approval or authorization, of, exemption by, notice or report to, or registration, filing or declaration with, and governmental authority is required in connection with the execution, delivery, performance, validity or enforceability of this Guaranty and the other Loan Documents to which the Guarantor is a party.

(e). Solvency. The fair value of the property of the Guarantor

exceeds the total amount of liabilities (including, without limitation, contingent liabilities) of the Guarantor; the present fair saleable value of the assets of the Guarantor exceeds the amount that will be required to pay the probable liability of the Guarantor on its existing debts as they become absolute and matured; the Guarantor is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature and the Guarantor does not intend to, and does not believe that it will, incur debts or liabilities beyond the Guarantor's ability to pay as the debts and liabilities mature. In computing the amount of contingent liabilities at any time, it is intended that the liabilities will be computed at the amount which, in light of all facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

6. Acceleration. Notwithstanding the terms of all or any part of the

Indebtedness, the obligations of the Guarantor hereunder to pay and perform all of the Indebtedness shall, at the option of TBCC, immediately become due and payable, without notice, and without regard to the expressed maturity of any of the Indebtedness, in the event any default or Event of Default under, or as defined in any Loan Document, occurs and is continuing; or (b) Guarantor shall revoke this Guaranty or contest or deny liability under this Guaranty. All of the foregoing are hereinafter referred to as "Events of Default".

7. Revocation. This is a Continuing Guaranty relating to all of the

Indebtedness, including Indebtedness arising under successive transactions which from time to time continue the Indebtedness or renew it after it has been satisfied. Guarantor agrees that the obligations of Guarantor hereunder may not be terminated or revoked in any manner except by giving 90 days' advance written notice of revocation to TBCC at its address above by registered first-class U.S. mail, postage prepaid, return receipt requested, and only as to new Loans made by TBCC to Borrower more than 90 days after actual receipt of such written notice by TBCC. No termination or revocation of this Guaranty shall be effective until 90 days following the date of actual receipt of said written notice of revocation by TBCC. Notwithstanding such written notice of revocation or any other act of Guarantor or any other event or circumstance, Guarantor agrees that this Guaranty and all consents, waivers and other provisions hereof shall continue in full force and effect as to any and all Indebtedness which is outstanding on or before the 90th day following actual receipt of said written notice of revocation by TBCC, and all extensions, renewals and modifications of said Indebtedness (including without limitation amendments, extensions, renewals and modifications which are evidenced by new or additional instruments, documents or agreements executed before or after expiration of said 90-day period), and all interest thereon, accruing before or after expiration of said 90-day period, and all attorneys' fees, court costs and collection charges, incurred before or after expiration of said 90-day period, in endeavoring to collect or enforce any of the foregoing against Borrower, Guarantor or any other person liable thereon (whether or not suit be brought) and any other expenses of, for or incidental to collection thereof.

8. Financial Condition of Borrower. Guarantor warrants that it is fully aware

of the financial condition of Borrower and is executing and delivering this Guaranty at Borrower's request and based solely upon its own independent investigation of all matters pertinent hereto, and Guarantor is not relying in any manner upon any representation or statement of TBCC with respect thereto. Guarantor represents and warrants that it is in a position to obtain, and Guarantor hereby assumes full responsibility for obtaining, any additional information concerning Borrower's financial condition and any other matter pertinent hereto as Guarantor may desire, and Guarantor is not relying upon or expecting TBCC to furnish to it any information now or hereafter in TBCC's possession concerning the same or any other matter. By executing this Guaranty, Guarantor knowingly accepts the full range of risks encompassed within a contract of continuing guaranty, which risks Guarantor acknowledges

include without limitation the possibility that Borrower will incur additional Indebtedness for which Guarantor will be liable hereunder after Borrower's financial condition or ability to pay such Indebtedness has deteriorated and/or after bankruptcy or insolvency proceedings have been commenced by or against Borrower. Guarantor shall have no right to require TBCC to obtain or disclose any information with respect to the Indebtedness, the financial condition or character of Borrower, the existence of any collateral or security for any or all of the Indebtedness, the existence of any other guaranties of all or any part of the Indebtedness, any action or non-action on the part of TBCC, Borrower, or any other person, or any other matter, fact, or occurrence.

9. Amendments, Etc. No amendment or waiver of any provision of this Guaranty

or consent to any departure by the Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by TBCC, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

10. Addresses for Notices. All notices and other communications provided for

hereunder shall be in writing (including by telecopier) and, if to the Guarantor, mailed or delivered to it at its address specified in the Loan Agreement between Guarantor and TBCC, if to TBCC, mailed or delivered to it at the address of TBCC specified on the first page of this Guaranty, or as to each party at such other address as shall be designated by the party in a written notice to the other party. All the notices and other communications shall, if mailed, be effective when deposited in the mail addressed as aforesaid (except for notice of revocation, which shall be governed by Section 7 of this Guaranty). TBCC and Guarantor may change their address for purposes of receiving notices hereunder by giving written notice thereof to the other party in accordance herewith. Guarantor shall give TBCC immediate written notice of any change in its address.

11. No Waiver; Remedies. No failure on the part of TBCC to exercise, and no

delay in exercising, any right hereunder shall operate as a waiver thereof. No single or partial exercise of any right hereunder shall preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

12. Right of Set-off. TBCC is hereby authorized at any time and from time-to-

time following an Event of Default, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by TBCC to or for the credit or the account of the Guarantor against any and all of the obligations of the Guarantor now or hereafter existing under this Guaranty, irrespective of whether or not TBCC shall have made any demand under this Guaranty and although such obligations may be contingent and unmatured. TBCC agrees promptly to notify the Guarantor after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of TBCC under this Section are in addition to the other rights and remedies (including, without limitation, other rights of set-off) which TBCC may have.

13. Continuing Guaranty; Assignments. This Guaranty is a continuing guaranty

and shall (a) remain in full force and effect until the indefeasible payment in full of the Indebtedness and all other amounts payable under this Guaranty, (b) be binding upon the Guarantor and its successors, assigns, beneficiaries and indorsees (including, without limitation, the heirs, administrators, executors and estate of the Guarantor), except that no Guarantor shall assign or transfer any of its rights or obligations hereunder without the prior written consent of TBCC, and (c) inure to the benefit of and be enforceable by TBCC and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), TBCC may assign or otherwise transfer any of the Indebtedness to any other person or entity, and such other person or entity shall thereupon become vested with all the rights in respect thereof granted to TBCC herein or otherwise. This Guaranty and the obligations of the Guarantor hereunder shall terminate upon the indefeasible payment in full of all of the Indebtedness and all other amounts payable under this Guaranty.

14. Subordination. Any and all payments on all indebtedness and obligations of

the Borrower now or hereafter owing to the Guarantor other than in respect of salaries or wages (the "Junior Debt") is hereby subordinated and junior in right of payment and exercise of remedies to the prior payment in full in cash of the Indebtedness. Upon the written request of TBCC, the Junior Debt shall be collected, enforced and received by the Guarantor as trustee for TBCC and paid over to TBCC on account of the Indebtedness but without reducing or affecting in any manner the liability of the Guarantor under the other provisions of this Guaranty. So long as any of the Indebtedness is outstanding, no payments shall be made on any of the Junior Debt without the prior written consent of TBCC

15. Telecopier; Counterparts. This Guaranty may be executed and delivered by

telecopier or other facsimile transmission with the same force and effect as if the same was a fully executed and delivered original counterpart. This Guaranty may be executed by the parties in one or more counterparts, each of which shall be an original and all of this shall constitute one and the same agreement.

16. Security. This Guaranty is secured by all present and future security

interests granted to TBCC by Guarantor, including without limitation the security interests granted in the Loan Agreement and the other Loan Documents.

17. GOVERNING LAW. THIS GUARANTY SHALL BE GOVERNED BY AND CONSTRUED IN

ACCORDANCE WITH THE INTERNAL SUBSTANTIVE LAWS OF THE STATE OF ILLINOIS WITHOUT GIVEN EFFECT TO CONFLICTS OF LAW PRINCIPLES THEREOF.

18. CONSENT TO JURISDICTION.

(a). THE GUARANTOR HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY ILLINOIS STATE OR FEDERAL COURT SITTING IN ILLINOIS IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO

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TBCC

Cross-Corporate Continuing Guaranty

THIS GUARANTY OR ANY OTHER LOAN DOCUMENTS, AND THE GUARANTOR HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF THE ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH ILLINOIS STATE OR FEDERAL COURT. THE GUARANTOR HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO, ANY OBJECTION TO THE LAYING OF VENUE OR ANY DEFENSE OF AN INCONVENIENT FORUM WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF SUCH ACTION OR PROCEEDING. THE GUARANTOR IRREVOCABLY CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO THE GUARANTOR AT ITS ADDRESS SPECIFIED ON THE FIRST PAGE OF THIS GUARANTY. THE GUARANTOR AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW.

(b). NOTHING IN THIS SECTION SHALL AFFECT THE RIGHT OF TBCC TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR AFFECT THE RIGHT OF TBCC TO BRING ANY ACTION OR PROCEEDING AGAINST THE GUARANTOR OR ITS PROPERTY IN THE COURTS OF ANY OTHER JURISDICTIONS.

19. MUTUAL WAIVER OF RIGHT TO JURY TRIAL. TBCC AND GUARANTOR HEREBY WAIVE THE

RIGHT TO TRIAL BY JURY IN ANY ACTION, CLAIM, LAWSUIT OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (i) THIS GUARANTEE OR ANY OTHER LOAN DOCUMENTS OR ANY SUPPLEMENT OR AMENDMENT THERETO; OR (ii) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN TBCC AND GUARANTOR; OR (iii) ANY BREACH, CONDUCT, ACTS OR OMISSIONS OF TBCC OR GUARANTOR OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSON AFFILIATED WITH OR REPRESENTING TBCC OR GUARANTOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

IN WITNESS WHEREOF, the Guarantor has executed this Guaranty as of the date first above written.

Guarantors:

Odetics, Inc.

By /s/ Gregory A. Miner

Title COO

Odetics ITS, Inc.

By /s/ Gregory A. Miner

Title CFO

Gyyr Incorporated

By /s/ Gregory A. Miner

Title CFO

Mariner Networks, Inc.

By /s/ Gregory A. Miner

Title CFO

Meyer, Mohaddes Associates, Inc.

By /s/ Gregory A. Miner

Title CFO

LIST OF SUBSIDIARIES

NAME OF ENTITY -----	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION -----	OWNERSHIP INFORMATION -----
Gyyr Incorporated.....	California	100% owned
Mariner Networks, Inc.....	Delaware	100% owned
Meyer, Mohaddes Associates, Inc.....	California	100% owned by Odetics ITS, Inc.
Odetics ITS, Inc. (formerly known as Centro Corporation) ..	California	93% owned
Odetics Europe Limited.....	England and Wales	100% owned
Odetics Asia Pacific Pte. Ltd.....	Singapore	100% owned

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 033-63983, 333-63911, 333-66717, 333-69677 and 333-74509 and 333-40555) of Odetics, Inc. and in the related Prospectuses, and in the Registration Statements (Form S-8 Nos. 333-05735 and 333-44907) of our report dated May 11, 1999, except for Note 1, as to which the date is June 24, 1999, with respect to the consolidated financial statements and schedule of Odetics, Inc. included in this Annual Report (Form 10-K) for the year ended March 31, 1999.

Orange County, California
June 24, 1999

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