SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from to

Commission file number 0-10605

ODETICS, INC.
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	95-4054321 (I.R.S. Employer Identification No.)
1515 South Manchester Avenue Anaheim, California (Address of principal executive office)	92802 (Zip Code)

(714) 774-5000
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

Number of shares of Common Stock outstanding as of AUGUST 08, 2001

Class A Common Stock--9,542,889 shares.
Class B Common Stock--1,035,841 shares.

INDEX

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

PART I FINANCIAL INFORMATION

ODETICS, INC.

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

	Three Months Ended June 30, 2000	Three Months Ended June 30, 2001
Net sales and contract revenues:		
Net sales	$14,842	$10,970
Contract revenues	4,782	5,684
Total net sales and contract revenues	19,624	16,654
Costs and expenses:		
Cost of sales	11,764	7,816
Cost of contract revenues	3,259	3,820
Gross profit	4,601	5,018
Selling, general and administrative expense	11,144	8,509
Research and development expense	4,610	3,239
Total operating expenses	15,754	11,748
Loss from operations	(11,153)	(6,730)
Non-operating items		
Other income	19,055	0
Interest expense, net	(472)	(595)
Net income (loss) before extraordinary item	7,430	(7,325)
Extraordinary loss from the early extinguishment of debt	0	(450)
Income taxes	0	0
Net income (loss) after taxes and extraordinary item	$ 7,430	$(7,775)
Earnings (loss) per share:		
Basic		
Income (loss) before extraordinary item	$ 0.80	$ (0.70)
Extraordinary loss from the early extinguishment of debt	0.00	(0.04)
Net income (loss) per share	$ 0.80	$ (0.74)
Diluted		
Income (loss) before extraordinary item	$ 0.78	$ (0.70)
Extraordinary loss from the early extinguishment of debt	0.00	(0.04)
Net income (loss) per share	$ 0.78	$ (0.74)
Shares used in calculating earnings (loss) per share:		

Basic	9,249	10,552
Diluted	9,528	10,552

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2001 (Audited)	June 30, 2001 (Unaudited)
ASSETS		
Current assets		
Cash	$ 2,218	$ 2,249
Trade accounts receivable, net	14,380	12,976
Costs and estimated earnings in excess of billings on uncompleted contracts	3,296	2,835
Inventories:		
Finished goods	1,644	1,644
Work in process	51	510
Materials and supplies	11,371	8,960
Total inventories	13,066	11,114
Prepaid expenses	1,078	1,870
Total current assets	34,038	31,044
Property, plant and equipment:		
Land	2,060	2,060
Buildings and improvements	18,982	18,991
Equipment, furniture and fixtures	35,359	35,501
	56,401	56,552
Less accumulated depreciation	(35,266)	(35,727)
Net property, plant and equipment	21,135	20,825
Capitalized software costs, net	2,090	1,971
Goodwill, net	10,622	10,394
Other assets	176	21
Total assets	$ 68,061	$ 64,255
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 10,644	$ 10,013
Accrued payroll and related	4,559	4,707
Accrued expenses	2,354	2,244
Contractual loss accrual	2,290	2,219
Billings in excess of costs and estimated earnings on uncompleted contracts	2,575	2,221
Revolving line of credit	13,471	7,651
Current portion of long-term debt	6,990	20,539
Total current liabilities	42,883	49,594
Long-term debt, less current portion	4,800	94

Stockholders' equity		
Preferred stock, 2,000,000 shares authorized; none issued		
Common stock, 10,000,000 shares of Class A and 2,600,000 shares of Class B authorized; 9,542,889 shares of Class A and 1,035,841 shares of Class B issued and outstanding at June 30, 2001, $.10 par value	1,050	1,058
Paid-in capital	78,548	80,159
Treasury stock	(1)	(1)
Notes receivable from associates	(51)	(51)
Accumulated deficit	(58,732)	(66,507)
Accumulated other comprehensive income	(436)	(91)
Total stockholders' equity	20,378	14,567
Total liabilities and stockholders' equity	$ 68,061	$ 64,255

See notes to consolidated financial statements.

ODETICS, INC.

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

	Three Months Ended June 30,	
	2000	2001
Operating activities		
Net income (loss)	$ 7,430	$ (7,775)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,037	1,212
Provision for losses on accounts receivable	0	8
Gain on sale of product line	0	(116)
Changes in operating assets and liabilities:		
(increase) decrease in accounts receivable	1,334	1,396
(Increase) decrease in net costs and estimated earnings in excess of billings	614	107
(Increase) decrease in inventories	(958)	1,115
(Increase) decrease in prepaids and other assets	(290)	(637)
(Decrease) in accounts payable and accrued expenses	(1,726)	(664)
Net cash provided by (used in) operating activities	7,441	(5,354)
Investing activities		
Purchases of property, plant and, equipment	(727)	(464)
Proceeds from sale of product line	0	1,112
Other	(482)	345
Net cash provided by (used in) investing activities	(1,209)	993
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	6,782	16,659
Principal payments on line of credit, long-term debt and capital lease obligations	(10,850)	(12,279)
Proceeds from issuance of common stock	309	12
Net cash provided by (used in) financing activities	(3,759)	4,392
Increase in cash	2,473	31
Cash at beginning of year	4,880	2,218
Cash at June 30	$ 7,353	$ 2,249

	========	========
Non-cash transaction		
Stock issuance to former shareholders of Meyer, Mohaddes Associates, Inc.......................................	$ 0	$ 250
Issuance of warrants..................................	0	1,357

See notes to consolidated financial statements.

ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1--Basis of Presentation and Operations

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the consolidated financial position of Odetics, Inc. as of June 30, 2001 and the consolidated results of operations and cash flows for the three months ended June 30, 2000 and 2001. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the Unites States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations for the three months ended June 30, 2001 are not necessarily indicative of those to be expected for the entire year. The accompanying consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K/A for the year ended March 31, 2001 filed with the Securities and Exchange Commission.

During the three months ended June 30, 2001 we used $5.4 million of cash to fund operations, which reflects our net loss of $7.8 million reduced for non-cash charges of $1.2 million for depreciation and amortization, and an aggregate of $2.5 million for reductions in accounts receivable and inventories during the period. Significant financing and investing activities during the three months ended June 30, 2001 and subsequent are discussed below.

In April 2001 we concluded the sale of our Vortex Dome and Quarterback Controller product lines for $1.1 million in net cash proceeds. The proceeds were approximately equal to the book value of net assets sold, and were used to reduce borrowings due on our line of credit with Transamerica Business Credit ("Transamerica").

In May 2001, we received $16.0 million pursuant to a promissory note secured by a first trust deed on our principal facilities in Anaheim, California. This promissory note is due in May 2002 and bears annual interest at a rate of 10.0%. In connection with this loan, we issued warrants to this lender to purchase 426,667 shares of our Class A common stock at an exercise price of $4.0 per share. We allocated approximately $1.3 million of the loan proceeds to the warrant, and will accreted that amount to interest expense over the term of the loan. If we prepay this note prior to six months following its issuance, the lender, at its option, may convert up to $1.6 million of the principal amount of the note into our Class A common stock at a conversion price of $4.0 per share.

Of the $16.0 million proceeds received from the promissory note, we used approximately $6.0 million to retire the pre-existing first trust deed on our Anaheim real property, which included a prepayment penalty of $450,000 which is reflected as an extraordinary item in the accompanying condensed consolidated statement of operations, and $5.9 million to reduce borrowings due Transamerica under our line of credit, in accordance with the terms of the forbearance agreement. We used the balance of the proceeds from this financing, after payment of expenses, for general working capital purposes.

At June 30, 2001 we had $7.7 million outstanding on a line of credit with Transamerica. Although this line expired on December 31, 2000, we received an extension until July 31, 2001. Due to the breach of certain financial and other covenants under this line of credit, we entered into a forbearance agreement in May 2001 with Transamerica that expired on July 31, 2001, and was subsequently extended until November 2001. Under the terms of the forbearance agreement, the Company is prohibited from making further borrowings under the line of credit.

On August 1, 2001 we concluded a transaction that provided for the issuance of shares of Iteris Series A Preferred Stock and Iteris common stock to two institutional investors in exchange for $5.5 million in cash. In

addition, Iteris' $3.75 million Subordinated Convertible Promissory Note, which it entered into in January 2000, plus related accrued interest of $.7 million, was converted to common stock of Iteris. As part of the transaction, Odetics sold in a secondary transaction, $1.4 million of its Iteris common stock to a group of investors, which included Odetics and Iteris management. Iteris used $2.6 million of the proceeds it received from the financing to reduce amounts owed under the Odetic's line of credit with Transamerica, and received in exchange a release as a co-borrower from the Transamerica line of credit agreement. Odetics also paid Transamerica $1.4 million that it received on the sale of its Iteris shares. The payments to Transamerica reduced the Company's remaining obligations under the line of credit to approximately $3.5 million at August 1, 2001.

In connection with the financing, Iteris also received a letter of intent from a lender for an operating line of credit providing for borrowings up to $5.0 million. The cash received by Iteris in the financing transaction and any amounts Iteris may borrow under its line of credit is reserved for their working capital needs. We believe that Iteris' cash reserves plus available borrowings on its line of credit will enable it to meet its obligations and execute its operating plans. Following the transaction, Odetics ownership of Iteris has been diluted from 93% to 67.5%

We expect that our operations will continue to use net cash for the foreseeable future. During fiscal 2002 we expect to have an ongoing need to raise cash by securing additional debt or equity financing, or by divesting certain assets to fund our operations until they return to profitability and positive operating cash flow. We are currently considering the sale and leaseback of our principal operating facilities in Anaheim, California and are in negotiations with a financial institution to provide a new line of credit. We cannot be certain that our plan to sell and leaseback our facilities will be successful, that we will be able to secure a new line of credit on terms acceptable to us, or at all, or that our existing lender will continue to extend our existing borrowing relationship. Our future cash requirements will be highly dependent upon our ability to control expenses as well as the successful execution of the revenue plans by each of our businesses. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

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

Note 2--Income Taxes

Income tax expense (benefit), if any, for the three months ended June 30, 2000 and 2001 has been provided at the estimated annualized effective tax rates based on the estimated income tax liability or assets and change in deferred taxes for their respective fiscal years. Deferred taxes result primarily from temporary differences in the reporting of income for financial statement and income tax purposes. These differences relate principally to the use of accelerated cost recovery depreciation methods for tax purposes, capitalization of interest and taxes for tax purposes, capitalization of computer software costs for financial statement purposes, deferred compensation, other payroll accruals, reserves for inventory and accounts receivable for financial statement purposes and general business tax credit and alternative minimum tax credit carryforwards for tax purposes. Odetics did not provide income tax benefit for the losses incurred in the three months ended June 30, 2001 due to the uncertainty as to the ultimate realization of the benefit at that time. Because of Odetics' net operating loss carryforwards and tax credit carryforwards available at June 30, 2000, no provision for income taxes was recorded for the three months ended June 30, 2000.

ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 3--Long-Term Debt

	March 31, 2001	June 30, 2001
	(in thousands)	
Mortgage note	$ 5,874	$ --
Notes payable	4,750	19,393
Contracts payable	1,166	1,240
	11,790	20,633
Less current portion	6,990	20,539
	$ 4,800	$ 94

Note 4--Legal Proceedings

On October 11, 1999, Odetics settled a patent infringement case it had brought against Storage Technology Corporation ("StorageTek"). Pursuant to the settlement agreement, StorageTek agreed to pay Odetics a license fee totaling $100.0 million for use of Odetics' United States Patent No. 4,779,151. Under the agreement, the license fee was payable in three installments: $80.0 million upon signing of the agreement, and two annual installments of $10.0 million payable in each of October 2000 and 2001. On June 12, 2000, Odetics and StorageTek amended the agreement, whereby StorageTek agreed to pay a final discounted payment of $17.8 million immediately in full settlement of the $20.0 million otherwise due to complete the settlement. Accordingly, Odetics recognized non-operating income in that amount in the quarter ended June 30, 2000.

Note 5--Comprehensive Income

The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended June 30, 2000	2001
Net income (loss)	$ 7,430	$ (7,775)
Foreign currency translation adjustment	(482)	345
Comprehensive income (loss)	$ 6,948	$ (7,431)

Note 6--Business Segment Information

Odetics operates in three reportable segments: intelligent transportation systems ("ITS"), video products, which include products for the television broadcast and video security markets, and telecom products. Selected financial information for Odetics' reportable segments for the three months ended June 30, 2000 and 2001 are as follows (in thousands):

	Intelligent Transportation Systems	Video Products	Telecom Products	Total
Three months ended June 30, 2000				
Revenue from external customers.....	$5,777	$10,214	$1,360	$17,351
Intersegment revenues..............	--	1,227	28	1,255
Segment loss.......................	(2,381)	(3,214)	(1,688)	(7,283)
Three months ended June 30, 2001				
Revenue from external customers.....	7,711	7,428	1,515	16,654
Intersegment revenues..............	--	--	--	--
Segment income (loss)..............	32	(1,291)	(4,019)	(5,278)

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

	Three Months Ended June 30, 2000	Three Months Ended June 30, 2001
Total revenues for reportable segments...................	$18,606	$16,654
Non-reportable segment revenues..........................	2,273	--
Elimination of intersegment sales........................	(1,255)	--
Total consolidated revenues..............................	19,624	16,654
Total income or loss for reportable segments.............	(7,283)	(5,278)
Other income or loss.....................................	(1,125)	(2)
Unallocated amounts:		
Corporate and other expenses.............................	(1,515)	(1,450)
Royalty income...	17,825	--
Special charge...	--	(450)
Interest expense...	(472)	(595)
Income (loss) before income taxes........................	$ 7,430	$(7,775)

Note 7--Recent Accounting Pronouncements

In June 2001, the FASB issued Statement No. 141, Business Combinations ("Statement 141"), and No. 142, Goodwill and Other Intangible Assets ("Statement 142") effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with Statements 141 and 142. Other intangible assets will continue to be amortized over their useful lives.

Odetics will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2003. Application of the nonamortization provisions of Statement 142 is expected to result in reduction in amortization expense of $1.9M per year. During fiscal 2003, Odetics will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of April 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of Odetics.

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in this Report and in the Annual Report on Form 10-K/A of Odetics. When used in this Report, the words "expect(s)," "feel(s)," "believe(s)," "intends," "plans," "will," "may," "anticipate(s)" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements include, among other things, statements concerning projected revenues and results of operations, funding and cash requirements, supply issues, market acceptance of new products, the Odetics business strategy, and involve a number of risks and uncertainties, including without limitation, those set forth at the end of this Item 2 under the caption "Risk Factors." Odetics' actual results may differ materially from any forward-looking statements discussed herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Odetics undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Results of Operations

General. We define our business segments as video products, telecom products and ITS. The video products segment includes our wholly owned subsidiaries, Broadcast, Inc. and Gyyr, Incorporated. The telecom products segment includes Zyfer, Inc., our wholly-owned subsidiary (formerly known as our Communications division) and Mariner Networks, Inc., our wholly-owned subsidiary. The ITS segment consists of Odetics' majority owned subsidiary, Iteris, Inc. In April 2001, Gyyr separated its operations into two divisions, Gyyr CCTV Products, which manufactures analog and digital storage solutions, and Gyyr Electronic Access Control, which manufactures enterprise security management systems. All references to our subsidiaries in this report include the prior business and results of operations of such subsidiaries as business units of Odetics prior to their incorporation.

During the quarter ended December 31, 2000, we effected a restructuring (the "fiscal 2001 restructuring") to reduce our overall expenses and to further focus our business development on those areas that we believe provide the opportunity for the highest return on stockholder capital. This restructuring included a reduction of approximately 25% of our total workforce and the discontinuation of certain product lines.

Net Sales and Contract Revenues. Net sales and contract revenues consist of (i) sales of products and services to commercial and municipal customers ("net sales") and (ii) revenues derived from contracts with state, county and municipal agencies for ITS projects ("contract revenues"). Contract revenues also include revenue from contracts with agencies of the United States Government and foreign entities for space recorders used for geographical information systems. Total net sales and contract revenues decreased 15.1% to $16.7 million for the three months ended June 30, 2001, compared to $19.6 million in the corresponding period of the prior fiscal year.

Net sales decreased 26.1% to $11.0 million for the three months ended June 30, 2001, compared to $14.8 million in the corresponding period of the prior fiscal year. This decrease primarily reflects decreased sales in Broadcast and Gyyr, offset in part by an 85.6% increase in sales of Iteris products. Iteris represented 24.5% of net sales in the three months ended June 30, 2001 compared to 9.8% of net sales in the three months ended June 30, 2000. In the quarter ended December 31, 2000, Broadcast determined it would not pursue continued sales opportunities for its Roswell facility management system and shifted the focus of its business on sales of its AIRO Automation systems. The decrease in Broadcast revenues reflects sales of a narrower product line in the three months ended June 30, 2001 and generally soft market conditions in the North American market for broadcast systems sales. During the three months ended June 30, 2001, Gyyr divested its Vortex Dome and Quarterback Controller product lines. As such, the decrease in Gyyr sales in the three months ended June 30, 2001also reflects sales of a narrower product line.

Contract revenues increased 18.9% to $5.7 million for the three months ended June 30, 2001 compared to $4.8 million in the corresponding period of the prior fiscal year. The increase in contract revenues in the three months ended June

30, 2001 reflects an increase in Iteris' contract revenues for ITS projects, and an increase in revenues in Zyfer from contracts related to geographical information systems.

Gross Profit. Gross margin on net sales increased to 28.8% for the three months ended June 30, 2001 compared to 20.7% in the corresponding period in the prior fiscal year. This increase primarily reflects increased gross margin on net sales in Broadcast, Gyyr and Iteris. Broadcast experienced an improved gross margin as a result of its focus on the sale of higher margin AIRO Automation systems. Gyyr's gross margin also improved primarily as a result of lower costs related to product support, warranty and obsolescence compared to the corresponding period of the prior fiscal year. The improvement in the gross margin in Iteris reflects increased absorption of manufacturing overhead on an 85.6% increase in Vantage sales in the three months ended June 30, 2001 compared to the corresponding period of the prior fiscal year. Gross margins on contract revenues was substantially unchanged in both Zyfer and Iteris in the three months ended June 30, 2001 compared to the corresponding period of the prior fiscal year.

Selling, General and Administrative Expense. Selling, general and administrative expense decreased 23.6% to $8.5 million (or 51.1% of total net sales and contract revenues) in the three months ended June 30, 2001 compared to $11.1 million (or 56.8% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The fiscal 2001 restructuring resulted in substantial decreases in selling, general and administrative expense in Broadcast, Gyyr and Iteris in the three months ended June 30, 2001 compared to the corresponding period of the prior fiscal year. In Mariner Networks, we experienced a 59.4% increase of selling, general and administrative expense compared to the corresponding period of the prior fiscal year to support the introduction of the Dexter product line which began shipping in the three months ended June 30, 2001. Our general and administrative expense which are aggregated with sales and marketing expense in our statements of operations, decreased approximately 23.7% in the three months ended June 30, 2001 compared to the corresponding period of the prior fiscal year primarily due to general cost reduction efforts begun in December 2000.

Research and Development Expense. Research and development expense decreased 29.7% to $3.2 million (or 19.5% of total net sales and contract revenues) in the three months ended June 30, 2001 compared to $4.6 million (or 23.5% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The fiscal 2001 restructuring resulted in substantial decreases in research and development expenditures in the three months ended June 30, 2001 in each of the Odetics businesses, other than Mariner Networks, compared to the corresponding period of the prior fiscal year. Such decreases were primarily in the areas of payroll and related benefits, prototype material cost and consulting fees. Mariner Networks research and development expense increased 30.9% in the three months ended June 30, 2001 compared to the corresponding period of the prior fiscal year to support continued development of its Dexter 3000 product family of multi-service access devices. For competitive reasons, Odetics closely guards the confidentiality of its specific development projects.

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

	Three Months Ended June 30, 2000	Three Months Ended June 30, 2001
	(in thousands)	
Interest expense	$ 539	$ 595
Interest income	67	0
Interest expense, net	$ 472	$ 595

Interest expense primarily reflects interest on Odetics' line of credit borrowings and mortgage interest. Interest income in the three months ended June 30, 2000 was derived from short-term investments of excess cash deposits. The increase in interest expense for the three months ended June 30, 2001 compared to the corresponding period in the prior fiscal year reflects an increase in Odetics' outstanding borrowings.

Extraordinary Item. The extraordinary loss incurred in the three months ended June 30, 2001 related to a prepayment penalty on the retirement of our mortgage note payable resulting from the refinancing of our Anaheim real property.

Income Taxes. We have not provided income tax benefit for the losses incurred in the three months ended June 30, 2001 due to the uncertainty as to the ultimate realization of the related benefit. Because of our net operating loss carryforwards and the credit carryforwards available at June 30, 2000, no provision for income taxes was recorded in the three months ended June 30, 2000.

Liquidity and Capital Resources

During the three months ended June 30, 2001, we used $5.4 million of cash to fund operations, which reflects our net loss of $7.8 million reduced for non-cash charges of $1.2 million for depreciation and amortization, and an aggregate of $2.5 million for reductions in accounts receivable and inventories during the period. Significant financing and investing activities during the three months ended June 30, 2001 and subsequent are discussed below.

In April 2001, we concluded the sale of our Vortex Dome and Quarterback Controller product lines for $1.1 million in net cash proceeds. The proceeds were approximately equal to the book value of the net assets sold, and were used to reduce borrowings due on our line of credit with Transamerica Business Credit ("Transamerica").

In May 2001, we received $16.0 million pursuant to a promissory note secured by a first trust deed on our principal facilities in Anaheim, California. This promissory note is due in May 2002 and bears annual interest at a rate of 10.0%. In connection with this loan, we issued warrants to this lender to purchase 426,667 shares of our Class A common stock at an exercise price of $4.0 per share. We allocated approximately $1.3 million of the loan proceeds to the warrant, and will accreted that amount to interest expense over the term of the loan. If we prepay this note prior to six months following its issuance, the lender, at its option, may convert up to $1.6 million of the principal amount of the note into our Class A common stock at a conversion price of $4.0 per share.

Of the $16.0 million proceeds received from the promissory note, we used approximately $6.0 million to retire the pre-existing first trust deed on our Anaheim real property, which included a prepayment penalty of $450,000 which is reflected as an extraordinary item in the accompanying condensed consolidated statement of operations, and $5.9 million to reduce borrowings due Transamerica under our line of credit, in accordance with the terms of the forbearance agreement. We used the balance of the proceeds from this financing, after payment of expenses, for general working capital purposes.

At June 30, 2001, we had approximately $7.7 million outstanding on a line of credit with Transamerica. Although this line expired on December 31, 2000, we received an extension until July 31, 2001. Due to the breach of certain financial and other covenants under this line of credit, we entered into a forbearance agreement in May 2001 with Transamerica that expired on July 31, 2001, and was subsequently extended until November 2001. Under the terms of the forbearance agreement, the Company is prohibited from making further borrowings under the line of credit.

On August 1, 2001, we concluded a transaction that provided for the issuance of shares of Iteris Series A preferred stock and Iteris common stock to two institutional investors in exchange for $5.5 million in cash. In addition, Iteris' $3.75 million Subordinated Convertible Promissory Note, which it entered into in January 2000, plus related accrued interest of $.7 million, was converted to common stock of Iteris. As part of the transaction, Odetics sold in a secondary transaction, $1.4 million of its Iteris common stock to a group of investors, which included Odetics and Iteris management. Iteris used $2.6 million of the proceeds it received from the financing to reduce amounts owed under the Odetic's line of credit with Transamerica, and received in exchange a release as a co-borrower from the Transamerica line of credit agreement. Odetics also paid Transamerica $1.4 million that it received on the sale of its Iteris shares. The payments to Transamerica reduced the Company's remaining obligations under the line of credit to approximately $3.5 million at August 1, 2001.

In connection with the financing, Iteris also received a letter of intent from a lender for an operating line of credit providing for borrowings up to $5.0 million. The cash received by Iteris in the financing transaction and any amounts Iteris may borrow under its line of credit is reserved for their working capital needs. We believe that Iteris' cash reserves plus available borrowings on its line of credit will enable it to meet its obligations and execute its operating plans. Following the transaction, Odetics ownership of Iteris decreased from 93.0% to 67.5%

We expect that our operations will continue to use net cash for the foreseeable future. During fiscal 2002, we expect to have an ongoing need to raise cash by securing additional debt or equity financing, or by divesting certain assets to fund our operations until they return to profitability and positive operating cash flow. We are currently considering the sale and leaseback of our principal facilities in Anaheim, California and are in negotiations with a financial institution to provide a new line of credit. We cannot be certain that our plan to sell and leaseback our facilities will be successful, that we will be able to secure a new line of credit on terms acceptable to us, or at all, or that our existing lender will continue to extend our existing borrowing relationship. Our future cash requirements will be highly dependent upon our ability to control expenses as well as the successful execution of the revenue plans by each of our businesses. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

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

RISK FACTORS

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

We Have Experienced Substantial Losses and Expect Future Losses. We experienced operating losses of $6.7 million for the three months ended June 30, 2001, $49.8 million for the year ended March 31, 2001, and $38.7 million for the year ended March 31, 2000. In January 2001, we announced the reorganization of our business in order to reduce our operating expenses and negative cash flow, which included the downsizing of our operations in Gyyr and Broadcast, and a 25% reduction in our total work force. We cannot assure you that this reorganization will improve our financial performance, or that we will be able to achieve profitability on a quarterly or annual basis in the future. Most of our expenses are fixed in advance, and we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, we may continue to experience losses, which could cause the market price of our common stock to decline.

We Will Need to Raise Additional Capital in the Future and May Not Be Able to Secure Adequate Funds on Terms Acceptable to Us, or at All. Our line of credit facility expired on December 31, 2000. While we have received an extension on this facility until November 30, 2001, we will need to obtain a new line of credit from another lender in the near future. Substantially all of our assets have been pledged to our existing lender to secure the outstanding indebtedness under this facility ($3.5 million at August 1, 2001). We cannot assure you that we will be able to obtain a new line of credit on a timely basis, on acceptable terms, or at all. Even if we are able to secure a new line of credit, we anticipate that we will need to raise additional capital in the near future, either through additional bank borrowings, the monetization of certain real property, the divestiture of business units or select assets, or other debt or equity financings. These conditions, together with our recurring losses, raise substantial doubt about our ability to continue as a going concern. Our capital requirements will depend on many factors, including:

- our ability to control costs;
- our ability to generate operating income;
- increased research and development funding, and required investments in our business units;
- market acceptance of our products;
- technological advancements and our competitors' response to our products;
- capital improvements to new and existing facilities;
- 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.

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

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

- the effects of technological changes in our target markets;

- our relatively small level of backlog at any given time;

- the mix of sales among our business units;

- deferrals of customer orders in anticipation of new products, applications or product enhancements;

- the risks inherent in our acquisitions of technologies and businesses;

- risks and uncertainties associated with our international business;

- currency fluctuations and our ability to get currency out of certain foreign countries; and

- general economic and market conditions.

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

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

Our Operating Strategy for Developing Companies is Expensive and May Not Be Successful. Our business strategy entails intensive business development activities, which are expensive and highly risky. The goal of this strategy is to 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 certain of our business units, sufficient to allow the unit to function as an independent public company. We expect to continue to invest in the development of certain of our business units with the goal of obtaining additional capital to support further investment and eventually completing 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 private financings or an initial public offering of any of our business units 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, including the receptiveness of the stock markets to initial public offerings.

We may not be able to complete a successful private or public offering or spin-off of any of our business units in the near future, or at all. During fiscal 2001, we attempted to complete the initial public offering of Iteris, but withdrew the offering due to adverse market conditions. Even if we do complete additional public offerings, we may decide not to spin-off a particular business unit, or to delay the spin-off until a later date.

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

- rapid technological advances;

- downward price pressure in the marketplace as technologies mature;

- changes in customer requirements;

- frequent new product introductions and enhancements; and

- evolving industry standards and changes in the regulatory environment.

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

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

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, introduce these products in a timely, cost-effective manner, achieve broad market acceptance of these products and enhancements, and reduce our product costs. We may not be able to introduce any new products or any enhancements to our existing products on a timely basis, or at all. In addition, the introduction of any new products could adversely affect the sales of our certain of our existing products.

Our future success will also depend in part on the success of several recently introduced products including DVMS, our family of digital time-lapse recorders; AutoVue, our lane departure warning system; and Dexter, our multi-service access device.

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

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

We Have Significant International Sales and Are Subject to Risks Associated with Operating in International Markets. International product sales represented 14% for the three months ended June 30, 2001, 20% for the fiscal year ended March 31, 2001, and approximately 19% for the fiscal year ended March 31, 2000. International business operations are subject to inherent risks, including, among others:

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

We believe that 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. Many of our international sales are currently denominated in U.S. dollars. As a result, an increase in the relative value of the dollar could make our products more expensive and potentially less price competitive in international markets. We do not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations.

Any of 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.

We Need to Manage Growth and the Integration of Our Acquisitions. Over the past few years, we have 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, certain assets of the Transportation Systems business of Rockwell International, and the Security Products Division of Digital Systems Processing, Inc. 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, and the difficulties in integrating the operations, technologies and information system of the acquired companies;
- increased costs to improve managerial, operational, financial and administrative systems and to eliminate duplicative services;
- the incurrence of unforeseen obligations or liabilities;
- potential impairment of relationships with employees or customers as a result of changes in management; and

- increased interest expense and amortization of acquired intangible assets.

Acquisitions may also materially and adversely affect our operating results due to large write-offs, contingent liabilities, substantial depreciation, deferred compensation charges or goodwill amortization, or other adverse tax or audit consequences.

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

Acquisitions, combined with the expansion of our business units 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 additional expense as well as 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. A significant portion of the sales by Iteris and a portion of our sales by Zyfer were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 25% and 26% of our total net sales and contract revenues for the years ended March 31, 2000 and 2001, respectively, and 34% for the quarter ended June 30, 2001. We anticipate that revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

- long purchase cycles or approval processes;

- competitive bidding and qualification requirements;

- performance bond requirements;

- delays in funding, budgetary constraints and cut-backs; and

- milestone requirements and liquidated damage provisions for failure to meet contract milestones.

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

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

We Cannot Be Certain of Our Ability to Attract and Retain Key Personnel and We Do Not Have Employment Agreements with Any Key Personnel. 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 four officers or key employees. The loss of any of these persons would seriously harm our development and marketing efforts, and would adversely affect our business. Our success will also depend in large part upon our ability to continue to attract, retain and motivate qualified engineering and other highly skilled technical personnel. Competition for employees, particularly development engineers, is intense. We may not be able to continue to attract and retain sufficient numbers of such highly skilled employees. 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.

From time to time, we have received notices that claim we have infringed upon the intellectual property of others. Even if these claims are not valid, they could subject us to significant costs. We have engaged in litigation in the past, and litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to

defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on terms acceptable to us, or at all. We also may have to indemnify certain customers or strategic partners if it is determined that we have infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect 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. Since January 2000, our Class A common stock has traded at prices as low as $1.88 per share and as high as $29.44 per share. If our stock price declines below $1.00 for an extended period of time, our common stock may be delisted from the Nasdaq National Market and there may not be a market for our stock. We may not be able to increase or sustain the current market price of our common stock in the future. As such, you may not be able to resell your shares of common stock at or above the price you paid for them. The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

. quarterly variations in operating results;

. our ability to control costs and improve cash flow;

. shortages announced by suppliers;

. announcements of technological innovations or new products by our competitors, customers or us;

. acquisitions or businesses, products or technologies;

. changes in pending litigation or new litigation;

. changes in investor perceptions;

. our ability to spin-off any business unit;

. applications or product enhancements by us or by our competitors; and

. changes in earnings estimates or investment recommendations 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. In the past, companies that have experienced volatilities in the market price of their securities have been the subject of securities class action litigation. If we were to become the subject of a class action lawsuit, it could result in substantial losses and divert management's attention and resources from other matters.

We Are Controlled by Certain of Our Officers and Directors. As of June 21, 2001, our officers and directors beneficially owned approximately 28% of the total combined voting power of the outstanding shares of our Class A common stock and Class B common stock. As a result of their stock ownership, our management will be able to significantly influence the election of our directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how our other stockholders may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in our management or change in control and may adversely affect the voting or other rights of other holders of common stock.

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Substantially all of Odetics' debt outstanding at June 30, 2001 is fixed rate debt and accordingly, Odetics does not have significant exposure to changes in interest rates.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 11, 1999, Odetics settled a patent infringement case it had brought against Storage Technology Corporation ("StorageTek"). Pursuant to the settlement agreement, StorageTek agreed to pay Odetics a license fee totaling $100.0 million for use of Odetics' United States Patent No. 4,779,151. Under the agreement, the license fee was payable in three installments: $80.0 million upon signing of the agreement, and two annual installments of $10.0 million payable in each of October 2000 and 2001. On June 12, 2000, Odetics and StorageTek amended the agreement; whereby StorageTek agreed to pay a final discounted payment of $17.8 million immediately in full settlement of the $20.0 million otherwise due to complete the settlement. Accordingly, Odetics recognized non-operating income in that amount in the quarter ended June 30, 2000.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Sales of Unregistered Securities. During the three months ended June 30, 2001, Odetics issued 78,740 shares of Class A Common Stock to the former shareholders of Meyer, Mohaddes & Associates in connection with the merger of the MMA Acquisition Corp, a subsidiary of Iteris, Inc. with and into MMA. No underwriters participated in this transaction. This transaction was exempt from registration by virtue of Section 4(2) of the Securities Act of 1933. Also during the three months ended June 30, 2001, Odetics entered into a Securities Purchase Agreement with Castle Creek Technology Partners. Pursuant to this agreement, Odetics issued to Castle Creek Technology Partners a one-year senior convertible promissory note in the original principal amount of $16.0 million. Castle Creek has the right to convert all or a portion of the principal amount of the note into shares of Class A common stock of Odetics under certain circumstances. If Odetics prepays this note prior to November 29, 2001, Castle Creek will have the right to convert up to $1.6 million of the original principal amount into 400,000 shares of Class A common stock. If Odetics has not paid off the note by maturity on May 29, 2002, Castle Creek may convert all of the unpaid obligations under this note into that number of shares of Class A common stock that would result from dividing the amount of the unpaid obligations by the lesser market price (as defined in the note) for the Class A common stock on either May 29, 2002, or the date Castle Creek delivers to Odetics a notice of conversion of the indebtedness. In connection with this financing, Odetics also issued a warrant to Castle Creek for the purchase of 426,667 shares of Class A common stock at an exercise price of $4.00 per share. Odetics may also be required to issue additional warrants to Castle Creek in the future under certain circumstances. No underwriters participated in this transaction. This transaction was exempt from registration by virtue of Section 4(2) of the Securities Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE.

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

NONE.

ITEM 5. OTHER INFORMATION

NONE.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27. Financial Data Schedule

(b) Reports on Form 8-K

In connection with the Securities Purchase Agreement with Castle Creek Technology Partners on May 29, 2001, Odetics filed a Form 8-K on June 1, 2001. Under the terms of the agreement, Castle Creek purchased from Odetics a one-year senior convertible promissory note secured by a deed of trust for real property located at 1515 S. Manchester Ave., Anaheim, CA. for sixteen million dollars ($16.0 million).

SIGNATURES

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

ODETICS, INC.
(Registrant)

/s/ Gregory A. Miner
By: ________________________________
Gregory A. Miner
Vice President and Chief Operating Officer
(Principal Financial Officer)

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

Dated: August 14, 2001