FORM 10-Q

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

(Mark One)

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

For the quarterly period ended December 31, 1995

OR

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

For the transition period from________________________ to ______________________

Commission file number 0-10605

ODETICS, INC.

(Exact name of registrant as specified in its charter)

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

1515 SOUTH MANCHESTER AVE., ANAHEIM, CA 92802

(Address of principal executive offices) (Zip Code)

(714) 774-5000

(Registrant's telephone number, including area code)

____

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

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

YES X NO

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

Number of shares of Common Stock outstanding as of February 09, 1996

Class A Common Stock - 4,928,149 shares.
Class B Common Stock - 1,161,031 shares.

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PART 1 FINANCIAL INFORMATION

ODETICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share amounts)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1994	1995	1994	1995
Net sales and contract revenues:				
Net sales	$19,901	$24,356	$57,296	$65,204
Contract revenues	3,051	3,038	10,811	8,112
	$22,952	$27,394	$68,107	$73,316

Costs and expenses:				
Cost of sales	13,375	16,684	38,517	43,319
Cost of contract revenues	1,563	1,364	5,177	4,232
Selling, general and administrative expenses	5,308	6,073	15,603	16,841
Research and development expenses	2,643	1,573	7,039	4,957
Nonrecurring charge	4,393	0	4,393	0
Interest expense	545	552	1,471	1,835
	27,827	26,246	72,200	71,184
Income (loss) before income taxes	(4,875)	1,148	(4,093)	2,132
Income taxes (benefit)	(1,617)	423	(1,351)	797
Net Income (loss)	$(3,258)	$ 725	$(2,742)	$ 1,335
Weighted average number of common shares outstanding	5,960	6,309	5,969	6,099
Net income (loss) per share of common stock	$ (0.55)	$ 0.11	$ (0.46)	$ 0.22

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	March 31, 1995	Dec. 31, 1995 (unaudited)
Current assets		
Cash	$ 378	$ 1,583
Trade accounts receivable	17,813	20,647
Costs and estimated earnings in excess of billings on uncompleted contracts	3,136	4,305
Inventories:		
Finished goods	2,690	3,123
Work in process	2,702	1,374
Materials and supplies	20,075	18,622
Total inventories	25,467	23,119
Prepaid expenses and other	1,533	1,217
Deferred income taxes	2,683	1,886
Total current assets	51,010	52,757
Property, plant and equipment:		
Land	2,090	2,090
Buildings and improvements	16,948	17,737
Equipment, furniture and fixtures	22,727	24,071
	41,765	43,898
Less accumulated depreciation	(21,056)	(22,822)

Net property, plant and equipment	20,709	21,076
Other assets	639	1,206
Total assets	$ 72,358	$ 75,039

See notes to consolidated financial statements.

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 1995	Dec. 31, 1995 (unaudited)
Current liabilities		
Trade accounts payable	$ 8,155	$ 9,657
Accrued expenses	3,693	3,032
Accrued vacation	1,178	1,437
Billings in excess of costs and estimated earnings on uncompleted contracts	3,955	5,222
Current portion of long-term debt	1,296	1,459
Total current liabilities	18,277	20,807
Long-term debt-less current portion	25,757	24,226
Deferred income taxes	588	586
Stockholders' equity		
Preferred stock, authorized 2,000,000 shares; none issued	--	--
Common stock, authorized 10,000,000 shares of class A and 2,600,000 shares of class B; 4,887,857 shares of class A and 1,161,031 shares of class B issued and outstanding at December 31, 1995 - $.10 par value	595	605
Paid-in capital	21,067	21,427
Foreign currency translation	46	25
Retained earnings	6,028	7,363
Total stockholders' equity	27,736	29,420
Total liabilities and stockholders' equity	$72,358	$75,039

See notes to consolidated financial statements.

ODETICS, INC.

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

	Nine Months Ended December 31,	
	1994	1995
OPERATING ACTIVITIES		
Net income (loss)	$ (2,742)	$ 1,335
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,762	2,026
Provision for inventory reserves	4,737	946
Provision for losses on accounts receivable	752	99
Provision for deferred income taxes	(1,645)	795
Foreign currency translation gain (loss)	8	(21)
(Gain) on sale of equipment	0	(30)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(609)	(2,933)
(Increase) Decrease in costs and estimated earnings in excess of billings on uncompleted contracts	390	(1,169)
(Increase) Decrease in inventories and prepaid expenses	(8,858)	1,718
(Increase) in other assets	(268)	(719)
Increase in accounts payable and accrued expenses	501	1,100
Increase (Decrease) in billings in excess of cost and estimated earnings on uncompleted contracts	(331)	1,267
Net cash provided by (used in) operating activities	(6,303)	4,414
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,831)	(2,258)
Proceeds from sale of equipment	0	47
Net cash used in investing activities	(1,831)	(2,211)
FINANCING ACTIVITIES		
Proceeds from revolving line of credit and long-term borrowings	20,411	27,360
Principal payments on line of credit, long-term debt and capital lease obligations	(12,541)	(28,728)
Proceeds from sale of common stock	546	370
Net cash provided by (used in) financing activities	8,416	(998)
Increase in cash	282	1,205
Cash at beginning of year	172	378
Cash at December 31	$ 454	$ 1,583

See notes to consolidated financial statements.

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

Note 1- In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments consisting of normal recurring accruals necessary to present fairly the Company's consolidated financial position as of December 31, 1995 and its results of operations for the three-month and nine-month periods ended December 31, 1994, and 1995 and its cash flows for the nine-month periods ended December 31, 1994 and 1995. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations for the nine-month period ended December 31, 1995 are not necessarily indicative of those to be expected for the entire year.

Note 2- Income tax expense for three-month and nine-month periods ended December 31, 1994 and 1995 have been provided at the estimated annualized effective tax rates based on the estimated income tax liability or asset and change in deferred taxes for their respective fiscal years. Deferred taxes result primarily from temporary differences in the reporting of income for financial statement and income tax purposes. These differences relate principally to the use of accelerated cost recovery depreciation methods for tax purposes, capitalization of interest and taxes for tax purposes, capitalization of computer software costs for financial statement purposes, deferred compensation, other payroll accruals, and reserves for inventory and accounts receivable for financial statement purposes and general business tax credit and alternative minimum tax credit carryforwards for tax purposes.

Note 3- Long-term Debt

	(in thousands) March 31, 1995	December 31, 1995
Line of credit	$14,100	$12,000
Mortgage note	11,829	11,246
Contracts payable	1,124	2,439
	27,053	25,685
Less current portion	1,296	1,459
	$25,757	$24,226

During April 1995, the Company secured borrowings of $1,750,000 collateralized by equipment, payable in monthly installments through March 1999, including interest at 8.99%.

Note 4- On November 15, 1994, the Company filed suit in the Superior Court of Los Angeles, California ("California Action"), against E-Systems, Inc. for breach of contract due to cancellation of all remaining purchase orders for ATL Products' DataLibrary and DataTower products under an agreement which extended until 1996. Additionally, the Company's suit claims breach of contract for the return and cancellation of a purchase order for ATL

Products' ACL 5480 and ACL 2640 products. Shortly prior to the filing of the suit, E-Systems had notified the Company of its cancellation of all purchase orders under the above mentioned agreements due to alleged product reliability problems.

On February 2, 1995, E-Systems filed a countersuit in the District Court of Dallas, Texas ("Texas Action"), against the Company for breach of good faith and fair dealing whereby it is alleged that the Company did not provide reliable "commercial" products--ATL Products' DataLibrary Systems and DataTower Systems. The Company believes the claims of the countersuit from E-Systems are without merit and will be vigorously defended.

On May 15, 1995, E-Systems filed a cross-complaint in the California Action ("California Cross-Complaint"). Although somewhat differently phrased than the Texas action, the California Cross-Complaint appears to seek recovery for the same claims as made by E-Systems in the Texas Action. The California Cross-Complaint is stated in two counts, one pertaining to DataLibraries and one pertaining to DataTowers. The Company believes the claims of the California Cross-Complaint are without merit and will be vigorously defended.

Both the initial suit and countersuit are in preliminary discovery and other pretrial investigation proceedings and will proceed concurrently in the California Court. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any losses or recovery that may occur from the ultimate resolution of the litigation has been made in the accompanying financial statements.

The Company has two pending actions against Storage Technology Corporation and certain other defendants alleging that certain products manufactured by Storage Technology infringe the Company's patented technology. The first action was filed by the Company in June 1995 and the second action was filed by the Company in December 1995, both in the United States District Court for the Eastern District of Virginia. In the first action, Storage Technology asserted counterclaims against the Company and the ATL Products Division for alleged infringement of three patents of Storage Technology. The first action was tried in January 1996 and resulted in judgement finding that Odetics' patent was not invalid, but Storage Technology did not infringe the three claims asserted. Management intends to appeal this judgement as being incorrect as a matter of law. Storage Technology's counterclaims against Odetics were dismissed or resolved between the parties without findings of infringement or monetary liability. In the second action, Storage Technology has not yet provided its answer to the complaint. No prediction can be made as to the likely outcome of the second action or the appeal in the first action, but management believes that the outcomes of both actions are not likely to have material adverse effects on the Company's business or financial condition.

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

Results of Operations

Net sales and contract revenues for the third quarter of fiscal year 1996 increased approximately $4,442,000, or 19.4%, compared to the third quarter of the prior fiscal year. The components of this overall increase consisted of an increase in net sales (commercial products) of approximately $4,455,000, or

22.4%, while contract revenues were essentially flat with a decrease of approximately $13,000. Net sales and contract revenues for the nine month period of fiscal year 1996 increased approximately $5,209,000, or 7.6%, compared to the same period in the prior fiscal year. For the nine month period of fiscal year 1996 net sales were up 13.8%, and contract revenues were down 25.0%.

The growth in net sales for the third quarter and nine month period was primarily due to increased sales in the Company's Broadcast Division. The Broadcast Division's sales growth reflected an increase in shipments of its SpotBank(TM) and the Cache Machine(TM) along with revenues of its TCS45(TM) system. The Company's wholly owned subsidiary, ATL Products, Inc. ("ATL") experienced strong growth in revenues for the third quarter of fiscal 1996 compared to the same period in the prior fiscal year. ATL's sales growth resulted from an increase in sales of its ACL 4/52 and ACL 2640 product lines in both the Domestic and European markets through Odetics Europe, Ltd., a wholly owned subsidiary of the Company.

ATL revenues for the nine month period showed only a slight increase compared to the same period in the prior year because of the loss of E-Systems as a major customer. In the nine months ended December 31, 1994, E-Systems accounted for 42% of ATL's sales revenue. ATL sales to customers other than E-Systems increased 74% in the nine months ended December 31, 1995 compared to the previous year's period.

Government product revenues decreased for the nine month period compared to the same period in the prior fiscal year primarily due to the slowdown in government spending and the Company's transition away from certain government markets.

Cost of sales as a percentage of net sales for the third quarter of fiscal 1996 increased to 68.5% from 67.2% when compared to the comparable quarter in the prior fiscal year mainly due to the Company's Broadcast Division's systems sales including a higher amount of third-party subsystem content sold at lower margins. For the nine months ended December 31, 1995 the cost of sales percentage declined to 66.4% from 67.2% for the comparable period in the prior fiscal year. This decrease reflected improving gross profits at ATL and increased sales of Broadcast products at improved gross profit levels compared to fiscal 1995 levels.

Contract revenues and cost of contract revenues reflect the Company's progress in completing a number of long-term cost plus and fixed price contracts. The recognition of cost of contract revenues relative to contract revenues varies based upon the timing of contractual completions and

cost allocations during any identified period of time. For the third quarter cost of contract revenues as a percentage of contract revenue was 44.9% compared to 51.2% for the comparable period in the prior year. For the nine months ended December 31, 1995 cost of contract revenues as a percentage of contract revenue was 52.2% compared to 47.9% for the nine month period of the prior fiscal year.

Selling, general and administrative (SG&A) expenses for the third quarter of fiscal 1996 increased approximately $765,000 as compared to the same period for the prior fiscal year, though as a percentage of net sales and contract revenues, SG&A declined to 22.2% compared to 23.1% in the comparable quarter in the prior fiscal year. SG&A expenses increased approximately $1,238,000 to 23.0% of net sales and contract revenues for the nine months of fiscal 1996 compared to the 22.9% for the comparable period in the prior fiscal year. SG&A expenses increased for the third quarter and nine month period compared to the same periods in the prior fiscal year primarily due to professional fees related to the E-Systems litigation.

Research & development (R&D) expenses decreased approximately $1,070,000 to

5.7% of net sales and contract revenues for the third quarter of fiscal year 1996 compared to 11.5% for the third quarter of fiscal 1995. R&D expenses for the first nine months of fiscal 1996 decreased approximately $2,082,000 to 6.8% of net sales and contract revenues compared to 10.3% for the comparable period in the prior fiscal year. The decrease in R&D expenses as a percentage of net sales and contract revenues reflected the effect of certain cost-cutting measures implemented during the second half of fiscal 1995 and completion of certain major R&D programs in the fourth quarter of fiscal 1995.

In the third quarter of fiscal 1995, the Company recorded a non-recurring charge of $4,393,000 for loss reserves related to downsizing and restructuring in response to a deterioration in the Company's contractual relationship with E-Systems as noted above and in note 4 to the consolidated financial statements. This charge consisted of a write-down of inventories and accounts receivables to net realizable value, severance costs for staffing reductions due to the loss of the E-Systems business and aggregate charges for purchase cancellations, legal fees and other costs relating to the dispute.

Interest expense increased approximately $7,000 and $364,000 for the third quarter and nine month periods of fiscal 1996, respectively, compared to the same periods for the prior fiscal year. These increases were primarily due to higher average outstanding line of credit borrowings and increased interest costs.

The effective income tax rate was 37% for the six month period of fiscal 1996 compared to a 33% tax benefit rate for the same period in the prior fiscal year. The increase in the effective tax rate projected for fiscal 1996 is due to a reduction in the effect of general business tax credits on total income tax expense.

Liquidity and Sources of Capital

The Company reported net income of $1,335,000 during the first nine months of fiscal 1996 and cash flow provided by operating activities of $4,414,000. The cash flow provided by operating activities was primarily used for the purchase of fixed assets and payments for the reduction of long term borrowings. The Company has a $17,000,000 bank line of credit providing for borrowings generally at or below the bank's prime rate. Borrowings are available for general working capital purposes, and at December 31, 1995, $5,000,000 was available for borrowing under the line. The Company anticipates that net cash flow provided by operating activities in conjunction with its bank credit arrangements will be sufficient to execute its operating plans and meet its obligations on a timely basis. The Company does not have any material commitments for capital expenditures as of December 31, 1995.

ODETICS, INC.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

There were no reports on Form 8-K filed
for the three-month period ended

December 31, 1995.

ODETICS, INC.

SIGNATURES

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

ODETICS, INC.
(Registrant)

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

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

Date: February 13, 1996

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