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

FOR THE FISCAL YEAR ENDED MARCH 31, 1998

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)

(714) 774-5000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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 [X] 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 25, 1998, the aggregate market value of the voting stock held by nonaffiliates of the registrant was $68,466,928. 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.

The Company 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 ten votes per share and each share of Class B Common Stock entitles its holder to one vote per share. As of June 25, 1998, there were 6,202,778 shares of Class A Common Stock and 1,062,041 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 (the "Proxy Statement") for the Annual Meeting of the Stockholders scheduled to be held on September 11, 1998.

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ODETICS, INC.

FORM 10-K ANNUAL REPORT

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Note: When used in this Annual Report on Form 10-K and the information 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. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Odetics, Inc. 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. Readers are also urged to carefully review and consider the various disclosures made by the Company which describe certain factors which affect the Company's 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. (the "Company") was founded in 1969 to supply digital recorders for use in the United States space program. The Company 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, the Company broadened its information automation product line to include time-lapse videocassette recorders for commercial and industrial security and surveillance applications. Through the Company's Gyyr Division, it became a leading supplier of time-lapse videotape cassette recorders, digital image processing modules and related products used in security and surveillance systems. The Company incorporated its Gyyr Division in 1997, forming a wholly owned subsidiary, Gyyr, Inc. ("Gyyr"). In October 1997, the Company expanded Gyyr by acquiring Intelligent Controls Inc. ("ICI"), a manufacturer of access control products specializing in PC based, remote site and fiber optic communications.

Leveraging the Company's expertise in video image processing, the Company introduced a video vehicle detection system in 1993, representing the Company's first product for use in intelligent transportation systems ("ITS"). In June 1997, the Company acquired certain assets comprising the Transportation Systems business from Rockwell International, creating the Company's ITS Division, which expanded the Company's offerings to include Advanced Traffic Management Systems and Advanced Traveler Information Systems. The Company incorporated its ITS Division in 1998 as Odetics ITS, Inc. and has announced that it intends to commence a public offering of a minority interest in Odetics ITS in the third quarter of fiscal 1998.

In the early 1980s, the Company set out to develop the technical expertise to apply automation to new commercial applications and established its Broadcast Division. The Broadcast Division develops and manufactures broadcast automation control systems and pioneered the use of large library cart machines in broadcast television stations and satellite uplink operations. The success of the Company's cart machines led the Company to pursue new applications for information automation technologies, and in 1990, the Company teamed with E-Systems, Inc. to develop and provide a 19mm automated tape cartridge handling subsystem. In 1991, in a strategic move to expand its business into new and potentially larger markets, the Company introduced an automated tape handling subsystem for integration into tape libraries designed for midrange computers and client/server networks. In January 1993, the Company formed a separate subsidiary, ATL Products, Inc. ("ATL") 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. The Company distributed its remaining 82.9% interest in ATL to its stockholders in a tax-free distribution (the "Distribution") in October 1997.

The Company is a leading supplier of communications equipment and services for the television broadcast, video security, telecommunications and intelligent traffic solutions markets. The Company's products automate television and cable station operations, facilitate broadband communications, record video surveillance, store information gathered in space exploration and reduce traffic congestion.

BROADCAST DIVISION

The Broadcast Division's video tape libraries automate the storage and televising of commercials, news spots and other television programming recorded on videotape cassettes. Automated video libraries increase labor efficiency by automatically performing tape insertion and other filing tasks previously performed manually or by machines with limited capacity and utility. The Company believes that enhanced operational efficiencies are a principal factor underlying the increased automation of broadcast television stations and satellite uplink operations.

The Broadcast Division's TCS2000 represented its earliest commercial success in the manufacture of video tape libraries followed by the TCS90. The recent market trend toward smaller libraries, coupled with digital hard disk recording devices was led by the Company with the introduction of highly integrated caching systems employing the Company's newest cart machine, the TCS45. The TCS45 can be coupled with hard drive recorders available from several recognized suppliers to the broadcast community. The Company now offers software to form powerful integrated systems, including the MicroSpot(TM) and the SpotBank(TM). In fiscal 1999, the Company intends to release the Roswell Total Facility Management System, which is designed to integrate and manage all schedules, media, equipment and on air operations at a television broadcast facility. Multi-channel presentation systems, which integrate the complete line of the Company's hardware with commonly available broadcast quality video disk recorders, are quickly becoming the core business of the Broadcast Division.

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. Sales and marketing management is located at the Company's principal facilities in Anaheim, California, with a dedicated field sales force of four persons operating in four U.S. sales regions plus a sales manager for Latin America. European sales and marketing activities are conducted and managed by Odetics Europe, Ltd., a wholly-owned subsidiary of the Company. Asia sales and marketing activities are conducted by Odetics Asia Pacific Pte Ltd., a wholly-owned subsidiary of the Company located in Singapore. Additional independent representative organizations are utilized to promote the Broadcast Division's products in various other foreign markets.

Customers include major television networks such as the British Broadcasting Corporation, 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 Discovery Channel), Asia Broadcast Centre, Univision and over 100 independent and network-affiliated television stations. The Broadcast Division has systems installed in over 30 countries.

Manufacturing and Materials

The Broadcast Division maintains a dedicated manufacturing area located within the Company's Anaheim, California facilities. The Company's SpotBank

and MicroSpot 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 Gyyr 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 along with video switching, conversion and monitoring equipment from Tektronix and Leitch for installation in the Company's automated video management systems. It also purchases cabinets and other fabricated parts and components.

GYYR, INC.

During fiscal 1997, the Company formed a wholly-owned subsidiary, Gyyr Inc., a California corporation ("Gyyr") to operate the business of its former Gyyr Division. Gyyr produces box solutions for the data challenges faced by security dealers, integrators and end users. Time-lapse VCRs are employed extensively in area monitoring by banks, convenience stores, retailers and other businesses. Time-lapse VCRs are frequently installed at automated teller machine and retail computerized payment machine locations to record pictures of individuals making transactions while simultaneously recording transaction information in an effort to deter and address incidents of theft and other crimes at these locations. Customer demand for more sophisticated capabilities, such as computer interfaces to record transaction information simultaneously with video images, electronic processors to record multiple cameras on one VCR and digital image processing and enhancement, also have contributed to recent growth of the market for Gyyr's products. The Company recently introduced a new line of time-lapse VCRs and video multiplexers, and the ContoLink,(TM) which combines remote control capabilities, telemetry and control parts to create a cost effective close circuit television control system. In October 1997, the Company acquired ICI, a manufacturer of access control and video badging systems for the electronic security markplace, that is currently operated as part of Gyyr.

Sales, Marketing and Principal Customers

Gyyr markets and sells its products directly to its private label OEM accounts. Gyyr personnel located at the Company's principal facilities also oversee a network of approximately 2,500 security equipment dealers and distributors worldwide who sell Gyyr's products to end users. Gyyr utilizes foreign representatives in Latin America, and employs a business development and service staff through Odetics Europe, Ltd., a wholly-owned United Kingdom subsidiary of the Company. Odetics Europe, Ltd. assists Gyyr in its sales and marketing activities in European 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 other OEMs.

Manufacturing and Materials

Gyyr maintains a dedicated manufacturing area located within the Company's facilities located in Anaheim, California and in Lynnwood, Washington. Gyyr primarily uses continuous unit flow 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 the Company's specifications exclusively through Nissei Sangyo America, the United States distribution affiliate of Hitachi, Ltd., into which the Company incorporates certain value-added features. The Company is vulnerable to changes in Hitachi, Ltd.'s basic VCR model, which might necessitate changes in the design or manufacturing of

Gyyr's products. There are numerous other suppliers of VCRs suitable for use in Gyyr's products, although certain changes in product design or manufacturing methods may be required to accommodate such VCRs, and Gyyr could experience temporary delays or interruptions in supply while such changes are incorporated or a new supplier is procured.

COMMUNICATIONS DIVISION

The Company's Communications Division includes telecommunications related products and space borne digital data recorders. The Communications Division supplies products that synchronize telecommunication and computer systems and products that provide an interface between the wide area network ("WAN") and the local area networks ("LAN").

Odetics telecom synchronization products are sold for new applications in cellular telephone systems and the new PCS networks being implemented throughout the world. The principal customer of the Communications Division is LGIC of Korea. See "Risk Factors--Risks Associated with International Sales." The synchronization products are based on G.P.S. technologies. Most product applications are in the latest CDMA networks.

The Company's telecom interface products are sold to local exchange carriers, interexchange carriers and local area network switch manufacturers. The product offerings fall into two categories: interface boards and stand alone systems. The interface boards are asynchronous transfer mode and SONET based, and are sold primarily to other telecom equipment manufacturers.

The space business unit manufactures digital data recorders that 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 the Company's principal facilities. The Company's telecom synchronization products are sold primarily through indirect sales organizations. Sales of network interface products are primarily made through indirect sales channels. During the fiscal year ended March 31, 1998, approximately 25% 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 production capabilities fall into two categories: commercial and space. The telecom business unit manufactures to best commercial practices. This group became ISO certified in February 1997. Most of the manufacturing operations consist of final assembly and test. The Company outsources board assembly and some preliminary fabrication processes.

The space production is designed for low volume, program-managed manufacture, often with nonrecurring engineering for individual customer needs. Because of these unique requirements, the space business unit has extensive machining and electronic assembly capabilities in order to manage cost, schedule, and quality levels to the unusual and exacting needs of its customers.

ODETICS ITS, INC.

Odetics ITS, Inc provides intelligent transportation systems, services and products to public agencies, vehicle manufacturers and consumers to address the growing demand for reduced congestion, enhanced roadway efficiency and

improved safety. By combining the diverse expertise of transportation systems, software and electrical engineers with proprietary information technology, Odetics ITS has developed the core competencies necessary to design and implement innovative advanced transportation management systems. As one of the two companies developing and maintaining the National ITS Architecture, Odetics ITS is well positioned to shape the future direction of ITS deployment in the United States.

Odetics ITS also 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 traffic surveillance. The Lane Tracker system, which provides an audible warning of lane departures, was jointly developed between Odetics ITS and Daimler Benz and integrates the proprietary technologies of both companies. The Company believes Lane Tracker 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 authorities pursuant to negotiated contracts and individual purchase agreements. Odetics ITS employs three full time Regional Managers in California, Michigan and Washington D.C. and has engaged one independent agent in China. Sales of Odetics ITS' systems generally involve long lead times and require extensive specification development, evaluation and price negotiations.

The Vantage vehicle detection systems are primarily sold through indirect sales channels comprised of approximately twenty independent dealers in the United States and Canada who sell integrated solutions and related products to the traffic intersection market. Odetics ITS's agreement with these independent dealers typically prohibits such dealers from distributing competitive video detection systems. These dealers often 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 systems and sell directly to government agencies and installation contractors. Such 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 two full time Regional Sales Managers in California and Texas to support the dealer sales channel and one District Sales Manager who sells direct to end user agencies and contractors.

Odetics ITS intends to sell its Lane Tracker Systems initially to heavy truck manufacturers through its product line management personnel. Sales of products to vehicle manufacturers generally require lengthy and complex design processes which could take up to four years. The Company anticipates 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 has, however, engaged an independent sales agent to assist its marketing and sales activities in Europe.

Manufacturing and Materials

Odetics ITS maintains a manufacturing facility in the Company's headquarters in Anaheim, California for the manufacture of its Vantage products. The manufacturing activities of Odetics ITS consist primarily of testing and assembly. Odetics ITS currently shares certain manufacturing activities and employees with the Communications Division. The Company intends to outsource

the manufacture of its Lane Tracker system and currently relies on one manufacturer for this product. Such manufacturer has not, to date, commenced volume production of the Lane Tracker product line, and accordingly, will need to expand capacity rapidly to accommodate full production.

CUSTOMER SUPPORT AND SERVICES

The Company provides warranty service for each of its product lines, as well as follow-on service and support for which the Company typically charges separately. The Company also offers separate software maintenance agreements to its customers. Management views customer support services as a critical competitive factor as well as a revenue source. The Company maintains its own service groups and trains its customers, representatives and distributors in the performance of user level maintenance. Modular product designs with recommended spare packages are used wherever feasible to minimize mean time to repair.

BACKLOG

The Company's backlog of unfulfilled firm orders was approximately $21.6 million as of March 31, 1998 and approximately $17.6 million at March 31, 1997. Approximately 92.7% of the Company's backlog at March 31, 1997 was recognized as revenues in fiscal 1998 and approximately 97.7% of the Company's backlog

at March 31, 1998 is expected to be recognized as revenues in fiscal 1999. Pursuant to the customary terms of the Company's agreements with government contractors and other customers, orders generally may be cancelled or rescheduled by the customer. Lead times for the release of purchase orders depend upon the scheduling and forecasting practices of the Company's individual customers, which also can affect the timing of the conversion of the Company's backlog into revenues. For these reasons, among others, the Company's backlog at a particular date may not be indicative of its future revenues.

PRODUCT DEVELOPMENT

The Company's business requires substantial ongoing research and development expenditures and other product development activities. For fiscal 1996, 1997 and 1998, the Company incurred approximately $5.2 million, $7.7 million and $9.3 million, respectively, of Company sponsored research and development costs and expenses, including reimbursable research and development expenses of the Company allowed in the Company's negotiated general and administrative rates on cost contracts with the United States Government.

The Company expects to continue to pursue significant product development programs and incur significant research and development expenditures in all of its principal product lines and services. These programs are directed toward developing new products for advanced automated libraries as well as the processing and distribution of digital images.

COMPETITION

The Company faces significant competition in each of its targeted markets. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's 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 cart machines, for the broadcast television market. Avid competes in the area of disk based video server products, principally against the Broadcast Division's SpotBank products. Louth and Probel principally provide automation control for video

libraries and disk recorders. The Broadcast Division's products compete primarily on the basis of product features, including their capacity to accommodate broadcast quality VCRs from all manufacturers, which is unique among product offerings in this market.

Gyyr's principal competitors for time-lapse VCRs include Panasonic, Toshiba, Sanyo and Sony, all of which have far greater name recognition, marketing and other resources than the Company. Numerous other companies, including Japanese and other offshore vendors of VCRs, also offer competitive products. Management believes that Gyyr's products compete primarily on the basis of their value-added features, including those relating to digital image processing.

The primary competition for the Communications Division's network synchronization products is Datum, Inc. In the Communications Division's space tape recorder market, the Company primarily competes with Seaker, General Electric Corporation, Lockheed Martin, and Schlumberger, S.A. An additional competitive factor in this market is space flight experience; however, with the advent of solid state recorders, the Company may face new competitors in this market. The Company believes its emerging network interface products are addressing market niches.

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. The Company believes 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. The Company expects increased competition in its transportation management

services business as additional competitors gain experience and expertise with the National ITS Architecture.In the market for vehicle detection, the Company competes 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. The Company is not aware of any other company that currently sells a vision based lane tracking safety device for in-vehicle applications.

The markets for the Company's products and services are highly competitive and are characterized by rapidly changing technology and evolving standards. The Company believes that its ability to compete depends on a number of factors, including the success and timing of new product development by the Company and its competitors, compatibility of the Company's products with a broad range of computing systems, product quality and performance, reliability, functionality, price, and service and technical support. Many of the Company's 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 the Company. 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 than the Company. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. The failure of the Company 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 the Company's business, financial condition and results of operations

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

The Company's ability to compete effectively depends in part on its ability

to develop and maintain the proprietary aspects of its technology. The Company's policy is to obtain appropriate proprietary rights protection for any potentially significant new technology acquired or developed by the Company. The Company currently holds a number of United States and foreign patents and trademarks. The patents will expire at various dates through 2012. The Company also has pending a number of United States and foreign patent applications relating to certain of its products; however, there can be no assurance that any patents will be granted pursuant to these applications.

In addition to patent laws, the Company relies on copyright and trade secret laws to protect its proprietary rights. The Company attempts to protect its trade secrets and other proprietary information through agreements with customers and suppliers, proprietary information agreements with the Company's Associates (as hereinafter defined) and consultants and other similar measures. There can be no assurance, however, that the Company will be successful in protecting its proprietary rights.

While management believes its patents, patent applications, software and other proprietary know-how have value, changing technology makes the Company's future success dependent principally upon its Associates' technical competence and creative skills for continuing innovation. Litigation has been necessary in the past and may be necessary in the future to enforce the Company's proprietary rights, to determine the validity and scope of the proprietary rights of others, or to defend the Company against claims of infringement or invalidity by others. An adverse outcome in such litigation or similar proceedings could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from others or require the Company to cease marketing or using certain products, any of which could have a material adverse effect on the Company's 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 have a material adverse effect on the Company's results of operations.

ASSOCIATES

The Company refers to its employees as Associates. As of June 11, 1998, the Company employed 554 Associates, including 124 Associates in general management, administration and finance; 78 Associates in sales

and marketing; 161 Associates in product development; 154 Associates in operations, manufacturing and quality; and 46 Associates in customer service. None of the Company's Associates is represented by a labor union and the Company has not experienced a work stoppage.

GOVERNMENT REGULATION

The Company's manufacturing operations are subject to various federal, state and local laws, including those restricting the discharge of materials into the environment. The Company is not involved in any pending or threatened proceedings which would require curtailment of its operations because of such regulations. The Company continually expends funds to assure that its facilities are in compliance with applicable environmental regulations. However, such expenditures have not been significant in the past and no significant future expenditures are expected.

From time to time, a portion of the Company's work relating to its 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, the Company and certain Associates possess relevant security clearances. The Company's affected facilities and operations are subject to security regulations of the United States Government. The Company believes it is in full compliance with these regulations.

RISK FACTORS

The Company's business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this Report. The following risks should be considered carefully in addition to the other information contained in this Report in evaluating the Company and its business before purchasing the shares of the Company's Common Stock.

FLUCTUATIONS IN QUARTERLY OPERATING RESULTS. The Company has experienced wide fluctuations in quarterly and annual operating results in the past and may continue to experience fluctuations in the future based on a number of factors, not all of which are in the Company's control. These factors include, without limitation, the size and timing of significant customer orders; the introduction of new products by competitors; the availability of components used in the manufacture of the Company's products; the expenditure of substantial funds for research and development for its subsidiaries and divisions; changes in pricing policies by the Company, its suppliers or its competitors and increased price competition; the ability of the Company to develop, introduce, market and gain market acceptance of new products (particularly the Roswell, ControLink, Vantage and Lane Tracker), applications and product enhancements in a timely manner and to control costs; the long lead times associated with government contracts or required by vehicle manufacturers; the Company's success in expanding and implementing its sales and marketing programs; technological changes in the markets in which the Company operates; the reduction in revenues from government programs; the relatively thin level of backlog at any given time; the mix of sales among the Company's divisions; deferrals of customer orders in anticipation of new products, applications or product enhancements; currency fluctuations; and general economic and market conditions. Moreover, the Company's sales in any quarter typically consist of a relatively small number of large customer orders, and the timing of a small number of orders can impact quarter to quarter results. The loss of or a substantial reduction in orders from any significant customer could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's growth in revenues in recent periods may not be sustainable and may not be indicative of future operating results, and there can be no assurance that the Company will continue to achieve profitability on a quarterly or annual basis in the future. Due to all of the foregoing factors and other risks discussed below, it is possible that in some future period the Company's operating results may be below the expectations of analysts and investors. In such event, the market price of the Company's securities would probably be materially and adversely affected.

UNCERTAINTY OF INCUBATOR STRATEGY. The Company has initiated a strategy to nurture its business divisions with the goal of conducting additional initial public offerings. The Company's ability to complete an initial public offering of any of its divisions or subsidiaries will depend upon numerous factors, including, without limitation, the overall performance of such division, its growth potential, management team, market size, customer base, product line and results of operations, as well as general economic and market conditions. There can be no assurance that the Company will be able to complete a successful initial public offering of any of its divisions in the near future, if at all.

RAPID TECHNOLOGICAL CHANGE; EFFECT OF NEW PRODUCT INTRODUCTIONS AND UNCERTAIN MARKET ACCEPTANCE. The markets served by the Company are characterized by 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. The Company's business requires substantial ongoing research and development efforts and expenditures, and its future success will depend on its ability to enhance its current products, reduce product costs and develop and introduce new products which incorporate the latest technological advancements in hardware, storage media, operating system software and applications software in response to evolving customer requirements. The Company's failure to

anticipate or respond adequately to technological developments and changing customer requirements, the occurrence of significant delays in new product development or introduction or the failure of any new products to gain market acceptance could impair the Company's competitiveness and could materially and adversely affect the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to introduce new products or enhancements to existing products on a timely basis, if at all, or the

effect to which such introductions will have on sales of existing products. To the extent new products are introduced, they may contain undetected design faults and software errors or "bugs" when first released by the Company that, despite testing by the Company, are discovered only after a product has been installed and used by customers. Although the Company has not experienced any material adverse effect resulting from any such faults or errors to date, there can be no assurance that faults or errors in the Company's existing products or in new products introduced by the Company will not be discovered in the future, causing delays in product introduction and shipments or requiring design modifications that could adversely affect the Company's competitive position and results of operations. The Company's success is also dependent in large part upon achieving broad market acceptance of certain new products including its Roswell, ControLink, Vantage and Lane Tracker products. There can be no assurance that any such products or enhancements thereto will be able to achieve broad market acceptance. Market acceptance of the Company's new products depends upon numerous factors, including the ability to resolve technical challenges in a timely and cost-effective manner, the perceived advantages over traditional products and the marketing capabilities of the Company's independent distributors and strategic partners. In addition, the Company anticipates that the manufacture of Lane Tracker will be outsourced to a single manufacturer. There can be no assurance that this manufacturer will be able to manufacture sufficient quantities in a timely manner or at a reasonable cost, either of which could materially and adversely affect the Company's ability to launch or gain market acceptance of Lane Tracker.

RISKS ASSOCIATED WITH INTERNATIONAL SALES; EFFECT OF ASIAN ECONOMIC CRISIS. International product sales represented approximately 30%, 36% and 34% of the Company's total net sales and contract revenues for the fiscal years ended March 31, 1996, 1997 and 1998, respectively. The Company's products sold by its telecommunications operations are sold principally to LGIC of Korea. As a result of economic uncertainty in Asia, particularly Korea, the Company's sales in this region declined during the fourth quarter of fiscal 1998 and could be further impacted by the currency devaluations and related economic problems in this region. The Company believes that international sales will continue to represent a significant portion of its revenues, and that continued growth and profitability will require further expansion of its international operations. The Company's international sales are currently denominated primarily in U.S. dollars, and an increase in the relative value of the dollar could make the Company's products more expensive and, therefore, potentially less price competitive in international markets. Additional risks inherent in international business activities generally include 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 including restrictions on the repatriation of earnings, the burdens of compliance with a wide variety of foreign laws, currency fluctuations and political and economical instability. The Company does not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations. There can be no assurance that such factors will not have a material adverse effect on the Company's future international sales and, consequently, the Company's business, operating results and financial condition. Furthermore, as the Company increases its international sales, its 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.

MANAGEMENT OF GROWTH; RISKS RELATED TO POSSIBLE ACQUISITIONS. Over the past year, the Company has significantly expanded its operations and has completed the acquisition of certain assets of the Transportation Business of Rockwell International as well as ICI, and the Company intends to continue to pursue an acquisition strategy. This period of rapid growth and expansion has placed, and continues to place, a significant strain on the Company's resources. To accommodate this growth, the Company will be required to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of its accounting and other internal management systems, all of which require substantial management effort. There can be no assurance that the such efforts can be accomplished successfully. There can be no assurance that the Company will be able to identify, acquire, profitably manage or successfully integrate any such business into the Company without incurring substantial delays or other operational or financial problems. Moreover, competitors of the Company 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. Acquisitions may require significant capital infusions and, in general, involve a number of special risks, including the diversion of

management's attention, the failure to retain or successfully integrate key acquired personnel, the challenge of operating diverse business divisions, increased costs to improve managerial, operational, financial and administrative systems, legal liabilities and increased interest expense and amortization of acquired intangible assets, any of which could materially and adversely affect the Company's business, financial condition and results of operations.

RELIANCE ON GOVERNMENT CONTRACTS AND SUBCONTRACTORS; RISKS RELATED TO FIXED PRICE CONTRACTS. Substantially all of net sales by Odetics ITS and a portion of the net sales of the Communications Division for the year ended March 31, 1998 were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government business is, in general, subject to special risks and challenges such as long purchase cycles, competitive bidding and qualification requirements, performance bond requirements, delays in funding, budgetary constraints, milestone requirements and liquidated damage provisions for failure to meet contract milestones. In addition, an increasing number of the Company's government contracts are fixed price contracts, pursuant to which the Company benefits from cost savings, but is unable to recover for any cost overruns. Such fixed price contracts require the Company 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 the Company's ability to estimate such costs accurately and complete the project on a timely basis. In the event the Company's costs on such projects exceed the fixed contractual cost, the Company will be required to bear the excess costs. Such costs could exceed project profit margins or even revenues, and accordingly, could have a material adverse effect on the Company's financial condition and results of operations. Moreover, certain of the Company's government contracts are subject to termination or renegotiation at the convenience of the government, which could result in a large decline in net sales in any given quarter. The Company's inability to address any of the foregoing concerns or the loss or renegotiation of any material government contract could have a material adverse effect on the Company's business, financial condition and results of operations.

COMPETITION. The Company competes in each of its markets with numerous other companies, many of which have far greater name recognition and financial, technological, marketing and customer service resources than the Company and may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion, sale and support of their products than the Company. The Company believes the principal competitive factors in the markets in which the Company participates are product quality and performance, price, reliability, upgradeability, service and technical support. There can be no

assurance that the Company will be able to compete effectively in the markets for its products. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse affect upon the Company's business, operating results and financial condition.

DEPENDENCE ON KEY PERSONNEL. The Company's future performance depends to a significant extent on its senior management and other key employees, in particular Joel Slutzky, the Company's Chief Executive Officer. The loss of the services of Mr. Slutzky or certain key employees would have a material adverse effect on the Company's development and marketing efforts. The Company's future success will also depend in large part upon its ability to attract, retain and motivate highly skilled employees. Competition for employees, particularly development engineers, is intense, and there can be no assurance that the Company will be able to continue to attract and retain sufficient numbers of such highly skilled employees. The Company's inability to attract and retain additional key employees or the loss of one or more of its current key employees could have a material adverse effect upon the Company's business, financial condition and results of operations.

DEPENDENCE ON PROPRIETARY TECHNOLOGY; RISKS OF INFRINGEMENT. The Company's ability to compete effectively depends in part on its ability to develop and maintain proprietary aspects of its technology which the Company attempts to protect with a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Such rights may not preclude competitors from developing substantially equivalent or superior products to the Company's products. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad will be adequate, that future patents will be issued, or that competitors will not independently

develop technologies that are similar or superior to the Company's technology, duplicate the Company's technology, or design around any patent of the Company. Moreover, litigation has been necessary in the past and may be necessary in the future to enforce the Company's intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend the Company against claims of infringement or invalidity by others. An adverse outcome in such litigation or similar proceedings could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from others or require the Company to cease marketing or using certain products, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. If the Company is required to obtain licenses under patents or proprietary rights of others, there can be no assurance that any required licenses would be made available on terms acceptable to the Company, if at all. 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 have a material adverse effect on the Company's results of operations.

VOLATILITY OF STOCK PRICE. The trading price of the Company's Common Stock has been in the past and could be in the future subject to wide fluctuations in response to quarterly variations in operating results, shortages announced by suppliers, announcements of technological innovations or new products, applications or product enhancements by the Company or its competitors, changes in financial estimates by securities analysts and other events or factors. In addition, the stock market has experienced volatility which has particularly affected the market prices of equity securities of many high technology companies and which often has been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Company's securities.

CONCENTRATION OF OWNERSHIP. As of June 25, 1998, the Company's officers and

directors beneficially owned a majority of the total combined voting power of the outstanding shares of Class A Common Stock and Class B Common Stock. As a result of their stock ownership, management will be able to significantly influence the election of the Company's directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how other stockholders of the Company may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in management or change in control of the Company and may adversely affect the voting or other rights of other holders of Common Stock.

ANTI-TAKEOVER EFFECT OF CHARTER PROVISIONS, BYLAWS, STOCK STRUCTURE AND STOCKHOLDER RIGHTS PLAN. The Company has two classes of Common Stock which are substantially identical other than with respect to voting power. The Company's Class A Common Stock entitles the holder to 1/10th vote per share and Class B Common Stock entitles the holder to one vote per share, with concentration of ownership of the Class B Common Stock in the Company's officers and directors and their affiliates. In addition, the Company's Board of Directors is elected annually on a split vote basis, with the holders of Class A Common Stock currently being entitled to elect two of the directors and holders of the Class B Common Stock currently being entitled to elect the remaining six directors. These provisions could have the effect of discouraging a proxy contest or making it more difficult for a third party acquiring a substantial block of the Company's Common Stock to effect a change in management and control of the Company. Such provisions also could limit the price that investors might be willing to pay in the future for shares of the Company's Common Stock. The Board of Directors of the Company is authorized to issue, without stockholder approval, up to 2,000,000 shares of Preferred Stock with voting, conversion and other rights and preferences, as well as additional shares of Class B Common Stock, which could adversely affect the voting power or other rights of the holders of Class A Common Stock. Although the Company has no current plans to issue any shares of Preferred Stock or additional shares of Class B Common Stock, the future issuance of Preferred Stock or Class B Common Stock or of rights to purchase Preferred Stock or Class B Common Stock could be used to discourage an unsolicited acquisition proposal. In March 1998, the Company's Board of Directors adopted a stockholder rights plan, pursuant to which the Company declared a dividend of preferred stock purchase rights to the Company's stockholders. Each right entitles the holder to purchase one one-thousandth of a share of junior participating Series A Preferred Stock of the Company at an

exercise price of $60. While the rights generally are only exercisable if a person or group acquires 15% or more of the Company's stock, the exercise of the rights could cause substantial dilution to a particular acquiror. Although the purpose of the Stockholder Rights Plans is to provide an incentive to potential acquirors to deal directly with the Company's Board of Directors, the existence of the stockholder rights plan could be considered to delay or make 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 date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, in less than three years, computer systems and/or software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. Significant uncertainty exists in the hardware and software industry concerning the potential effects associated with such compliance. Although the Company's core products are designed to be Year 2000 compliant, there can be no assurance that such products contain all necessary date code changes. The Company is exploring changes to its existing information systems to become Year 2000 compliant. The Company will be required to expend additional resources to make such corrections to its products and information systems, which corrections may not be able to be made on a timely basis, if at all. The Company believes that the purchasing patterns of customers and potential customers may be affected by Year 2000 issues in a variety of ways. Many companies are expending

significant resources to correct or patch their current systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase products such as those offered by the Company. Many potential customers may also choose to defer purchasing Year 2000 compliant products until they believe it is absolutely necessary, thus resulting in potentially stalled market sales within the industry. In addition, Year 2000 issues could cause a significant number of companies, including current customers of the Company, to reevaluate their current system needs, and as a result consider switching to other systems or suppliers. Any of the foregoing could result in a material adverse effect on the Company's business financial condition and results of operation.

ITEM 2. PROPERTIES.

The Company's headquarters and principal operations are located in Anaheim, California. In 1984, the Company 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. These Company-owned facilities house the Company's corporate and administrative offices (approximately 43,000 dedicated square feet), as well as Gyyr and the Broadcast Division, (approximately 87,000 dedicated square feet), the Communications Division (approximately 67,000 dedicated square feet), and Odetics ITS (approximately 25,000 dedicated square feet).

The Communications Division leases approximately 4,500 square feet of space in a manufacturing facility located on 0.62 acre in El Paso, Texas. The 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.

The Company currently is operating a single shift in its manufacturing and assembly facilities and it believes that its facilities are adequate for its current needs and for possible future growth. However, the Company may elect to expand or relocate its offices and facilities in the future.

ITEM 3. 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 counterclaimed alleging that the Company infringed several of StorageTek's patents. Prior to trial, the court dismissed two of the infringement claims against the Company and the third claim was resolved between the parties. In January 1996, the jury determined that the patent claims were not infringed under the doctrines 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. 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, the 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 order by the court against StorageTek should be stayed pending appeal. The Company has complied

with the Court's request for further briefing and will argue in support of its position.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 1998.

PART II

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

The Company's 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 sale 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, 1997				
First Quarter	$21	$ 6 1/4	$20	$ 6 5/8
Second Quarter	16 1/4	6 3/4	16 1/2	8 1/4
Third Quarter	17 3/4	11 1/2	17 1/2	12
Fourth Quarter	23 1/4	11 3/4	22 1/4	13 3/4
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(1)	21 3/4	4 5/8	21	4 1/2
Fourth Quarter	8 3/4	4 9/16	10 1/16	4 1/4

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(1) The Company's stock prices for the periods following October 31, 1997 give effect to the Distribution.

As of June 25, 1998, the Company had 733 holders of record of Class A Common Stock and 178 holders of record of Class B Common Stock according to information furnished by the Company's transfer agent.

DIVIDEND POLICY

Pursuant to the terms of the Company's Loan and Security Agreement with its banks, the Company is restricted in declaring cash dividends on its Common Stock in an amount not to exceed in any fiscal year 10% of the Company's consolidated net income for the prior fiscal year. The Company never paid or declared cash dividends on its Common Stock, and has no current plans to pay such dividends in the foreseeable future. The Company currently intends to retain any earnings for working capital and general corporate purposes. The payment

of any future dividends will be at the discretion of the Company's Board of directors, and will depend upon a number of factors, including, but not limited to, future earnings, the success of the Company's business, activities, its capital requirements, the general financial condition and future prospects of the Company, general business conditions, the consent of the Company's principal lender and such other factors as the Board may deem relevant.

RECENT SALES OF UNREGISTERED SECURITIES

In October, 1997, the Company issued an aggregate of 173,867 shares of its Class A Common Stock to the stockholders of ICI in connection with the merger of a wholly-owned subsidiary of the Company into ICI, in exchange for all of the outstanding Common Stock of ICI. The sale and issuance of such securities was exempt from registration under the Act by virtue of Section 4(2) thereof. No broker, dealers or underwriters were involved in this transaction. Since April 1, 1996, the Company has not sold any other unregistered securities.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data with respect to the Company's consolidated statement of operations for each of the five fiscal years in the period ended March 31, 1998 and the consolidated balance sheet data at March 31, 1994, 1995, 1996, 1997 and 1998 are derived from the audited consolidated financial statements of the Company. The consolidated financial statements for the fiscal years ended March 31, 1994 and 1995 and the Company's consolidated balance sheet at March 31, 1996 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 the Consolidated Financial Statements of the Company and the related notes thereto included elsewhere in this Report.

	FISCAL YEAR ENDED MARCH 31,				
	1994	1995	1996	1997	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net sales	$45,557	$51,824	$65,056	$71,748	$ 79,552
Contract revenues	18,099	13,280	10,161	9,032	10,284
Total net sales and contract revenues	63,656	65,104	75,217	80,780	89,836
Cost of sales	28,564	34,225	44,535	48,507	55,227
Cost of contract revenues	11,114	6,633	4,374	4,907	6,430
Selling, general and administrative expenses	13,305	16,199	15,620	19,831	26,010
Research and development expenses	4,983	6,061	5,242	7,734	9,271
In process research and development	--	--	--	--	2,106
Nonrecurring charge	--	767	--	--	1,716
Interest expense, net	1,230	682	386	183	617
Income (loss) from continuing operations before income taxes	4,460	537	5,060	(382)	(11,541)
Income taxes (benefit)	1,501	177	1,418	(181)	(2,858)
Income (loss) from continuing operations	2,959	360	3,642	(201)	(8,683)
Income (loss) from discontinued operations, net of income taxes	(1,137)	(5,038)	(1,189)	3,931	2,089
Net income (loss)	$ 1,822	$(4,678)	$ 2,453	$ 3,730	$ (6,594)
Diluted earnings (loss) per share(1):					
Continuing operations	$ 0.55	$ 0.06	$ 0.59	$ (0.03)	$ (1.26)
Discontinued operations	(0.21)	(0.86)	(0.19)	0.62	0.31
Earnings (loss) per share	$ 0.34	$ (0.80)	$ 0.40	$ 0.59	j$ (0.95)

Shares used in calculating diluted earnings (loss) per share..........................	5,326	5,872	6,179	6,299	6,912

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(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.

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	FISCAL YEAR ENDED MARCH 31,				
	1994	1995	1996	1997	1998
	(IN THOUSANDS)				
CONSOLIDATED BALANCE SHEET DATA:					
Working Capital.........	$20,052	$24,892	$20,610	$21,903	$19,996
Total assets............	63,070	70,098	73,013	85,805	88,790
Long-term debt (less current portion).......	16,723	25,757	22,019	11,860	21,000
Retained earnings.......	10,706	6,027	8,481	12,211	(3,795)
Total stockholders' equity.................	31,239	27,736	30,985	51,828	38,580

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

RESULTS OF OPERATIONS

The Company is organized into separate divisions or subsidiaries, each having primary responsibility for product development, manufacturing and marketing of one or more of the Company's principal product lines or services. The Company has four distinct manufacturing operations each tailored to the requirements of its principal product divisions.

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,		
	1996	1997	1998
Net sales..	86.5%	88.8%	88.6%
Contract revenues......................................	13.5	11.2	11.4
Total net sales and contract revenues..................	100.0	100.0	100.0
Cost of sales..	59.2	60.0	61.4

Cost of contract revenues	5.8	6.1	7.2
Selling, general and administrative expenses	20.8	24.5	29.0
Research and development expenses	7.0	9.6	10.3
In process research and development	0.0	0.0	2.3
Nonrecurring charge	0.0	0.0	1.9
Interest expense, net	0.5	0.2	0.7
Income (loss) from continuing operations before income taxes	6.7	(0.4)	(12.8)
Income taxes (benefit)	1.9	(0.2)	(3.2)
Income (loss) from continuing operations	4.8	(0.2)	(9.6)
Income (loss) from discontinued operations, net of income taxes	(1.5)	4.8	2.3
Net income (loss)	3.3%	4.6%	(7.3)%

General. On October 31, 1997, the Company completed the spin-off of its 82.9% interest in 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. In connection with the spin-off, the Company's financial statements have been restated to reflect continuing and discontinued operations. Discontinued operations reflect the Company's interest in the operations of ATL for all periods presented.

Net Sales and Contract Revenues. Net sales and contract revenues consist of: (i) sales of products and services to commercial customers ("net sales") and (ii) 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 ("contract

revenues"). Total net sales and contract revenues increased 11.2% to $89.8 million for the fiscal year ended March 31, 1998 ("fiscal 1998") compared to $80.8 million for the fiscal year ended March 31, 1997 ("fiscal 1997"), and increased 7.4% in fiscal 1997 from $75.2 million for the year fiscal year ended March 31, 1996 ("fiscal 1996").

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 the Company's timing and synchronization products sold by the Company's Communications Division to a major Korean telecommunications customer. While sales in fiscal 1998 to this customer increased as compared to fiscal 1997, the Company 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. The Company completed the acquisition of ICI which also contributed to the increased sales. The sales increases in Gyyr and in the Communications Division were offset by declines in sales in the Company's Broadcast Division which resulted from delays in delivery of "Roswell."

The Company's net sales increased 10.3% to $71.7 million in fiscal 1997 compared to $65.0 million in fiscal 1996 primarily as a result of increased sales of timing and synchronization products and increased sales of network interface devices manufactured by the Communications Division, in addition to an increase in sales of Gyyr. Increased sales in Gyyr and the Communications Division were offset by a decrease in sales of the Broadcast Division.

Contract revenues increased 13.9% to $10.3 million in fiscal 1998 compared to $9.0 million in fiscal 1997. Contract revenues decreased 11.0% to $9.0 million in fiscal 1997 compared to $10.2 million in fiscal 1996. In the first quarter of fiscal 1998, the Company acquired certain assets of the

Transportation Systems business of Rockwell International, which were consolidated into the Company's ITS business. The increase in contract revenues in fiscal 1998 reflects the revenue contribution from ITS. The increase in contract revenues in ITS in fiscal 1998 was partially offset by declines in contract revenues from the sale of space recorders and related service and equipment to agencies of the United States Government. The Company intends to focus strategically 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 31.4% in fiscal 1998, compared to 33.9% in fiscal 1997, and 35.0% in fiscal 1996. The decrease in fiscal 1998 compared to fiscal 1997 reflects decreased gross profit performance in Broadcast 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 ICI in October 1997. The decrease in fiscal 1998 also reflects a lower gross profit contribution on contract revenues from the Company's ITS business compared to other contract revenues during fiscal 1997.

The decrease in total gross profit in fiscal 1997 compared to fiscal 1996 reflects decreased gross profits on contract revenues, which was partially offset by increased gross profit performance in Gyyr as a result of improved sales mix favoring higher margin products and improved absorption of manufacturing overhead costs. The Company's gross profits on contract revenues in each accounting period reflect the mix of contracts currently under development, and can be expected to vary from period to period.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 31.2% to $26.0 million (or 29.0% of total net sales and contract revenues) in fiscal 1998 compared to $19.8 million (or 24.5% of total net sales and contract revenues) in fiscal 1997, and increased 27.0% in fiscal 1997 compared to $15.6 million (or 20.8% of total net sales and contract revenues) in fiscal 1996. The Company has experienced increased costs across all of its operating divisions and subsidiaries for sales, marketing, and administrative activities as a function of its planned growth. The expenses include 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 Company's acquisitions of ICI and certain assets of the Transportation Systems business of Rockwell International discussed above.

Research and Development Expense. Research and development expense increased 19.9% to $9.3 million (or 10.3% of total net sales and contract revenues) in fiscal 1998 compared to $7.7 million (or 9.6% of total net sales and contract revenues) in fiscal 1997, and increased 47.5% in fiscal 1997 compared to $5.2 million (or 7.0% of total net sales and contract revenues) in fiscal 1996. For competitive reasons, the Company closely guards the confidentiality of specific development projects. Increased spending for research and development both in terms of absolute dollars and as a percent of revenues reflects primarily expenses for engineering labor and related benefits, prototype material costs and consulting fees. The Company experienced increased expenses for research and development expense in each of Gyyr, the Broadcast Division and the Communications Division. The acquisitions of ICI and certain assets of the Transportation Systems business did not materially impact the increases in current year research and development expenses.

Nonrecurring Charge. In March 1998, the Company recorded a nonrecurring charge of $1.7 million. The charge reflects severance costs related to retirement of certain of the Company's 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:

	FISCAL 1996	FISCAL 1997	FISCAL 1998
Interest Expense	$2,247	$1,890	$1,609
Interest Income	1,861	1,707	992
Interest Expense, net	$ 386	$ 183	$ 617

Interest expense decreased 14.9% in fiscal 1998 compared to fiscal 1997, and decreased 15.9% in fiscal 1997 compared to fiscal 1996. This decrease represents reduced average outstanding borrowings on the Company's line of credit. Interest income was derived primarily from a note receivable due from ATL, the Company's 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 is payable in sixteen quarterly installments by ATL.

In-Process Research and Development. In the fourth quarter of fiscal 1998, the Company completed the purchase price allocation related to its acquisition of ICI 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 Cost," the Company recorded a charge in fiscal 1998 for such in-process research and development.

Income Taxes. The Company's effective tax rate from continuing operations was 28.0%, (47.4%) and (24.8)% in fiscal 1996, 1997 and 1998, respectively. 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 ICI, 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. The recognition of general business credits in 1996 reduced the Company's effective tax rates below the statutory rates, while such credits increased the tax benefit recorded in 1997.

In 1997, the Company entered into a Tax Allocation Agreement with ATL effective April 1, 1996 pursuant to which ATL made payments to the Company, or the Company made payments to ATL, as appropriate, in an amount equal to the taxes attributable to the operations of the Company on its consolidated federal, and consolidated or combined state income tax returns. In addition, the Tax Allocation Agreement provided that members of the Company's 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 its 82.9% ownership interest in ATL on October 31, 1997, the Company restated its financial statements to present the results of operations of ATL as discontinued operations for all periods presented. Income (loss) from continuing operations reflects the continuing operations of the Company including Gyyr, the Broadcast Division and the Communications Division.

LIQUIDITY AND CAPITAL RESOURCES

On October 31, 1997, the Company completed the spin-off of its holdings in ATL. The effect of the spin-off was to reduce total assets of the Company by approximately $11.6 million, representing the net assets of the discontinued operations reported in the Company's Form 10-Q for the second quarter of fiscal 1998.

The Company's net loss of $6.6 million incurred during fiscal 1998 contributed to negative cash flow from operating activities of $7.9 million. The losses were funded primarily by increased borrowings on the Company's line of credit facility with its principal banks and cash received from ATL discussed below. The Company has a $17.0 million bank line of credit with Imperial Bank and Comerica Bank-California which provides for borrowings generally at the lesser of the bank's prime rate (8.5% at March 31, 1998) or the bank's LIBOR rate plus 2.25%. Borrowings are available for general working capital purposes, and at March 31, 1998, approximately $3.9 million was available for borrowing under the line. The Company's borrowing's under the line are secured by substantially all of the Company's assets. At March 31, 1998, the Company was in violation of certain financial ratio covenants. The bank has waived compliance with those covenants at March 31, 1998 and the covenants are expected to be modified to allow the Company to be in compliance with the requirements of the line of credit facility in future periods.

In April 1997, ATL issued a promissory note payable to Odetics in the original principal amount of $13.0 million, representing the aggregate balance of ATL's interest bearing advances from the Company outstanding following ATL's initial public offering. The note bears interest at a rate equal to the Company's cost of borrowing (8.5% at March 31, 1998). Principal and interest on this note are payable to the Company in sixteen quarterly installments at the end of each calendar quarter. During fiscal 1998, the Company received $3.0 million in cash from ATL as payments of principal and interest on this note.

The Company anticipates that the combination of net cash flow from operating activities, proceeds from its promissory note due from ATL, together with future borrowings under its line of credit with its principal banks, will enable it to execute its operating plans and meet its obligations on a timely basis for at least the next twelve months.

YEAR 2000 COMPLIANCE

Significant uncertainty exists in the hardware and software industry concerning the potential effects associated with compliance with Year 2000 requirements. Although the Company's core products are designed to be Year 2000 compliant, there can be no assurance that such products contain all necessary date code changes. The Company is exploring changes to its existing information systems to become Year 2000 compliant. The Company will be required to expend additional resources to make such corrections to its products and information systems, which corrections may not be able to be made on a timely basis, if at all. The Company believes that the purchasing patterns of customers and potential customers may be affected by Year 2000 issues in a variety of ways. Many companies are expending significant resources to correct or patch their current systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase products such as those offered by the Company. Many potential customers may also choose to defer purchasing Year 2000 compliant products until they believe it is absolutely necessary, thus resulting in potentially stalled market sales within the industry. In addition, Year 2000 issues could cause a significant number of companies, including current customers of the Company, to reevaluate their current system needs, and as a result consider switching to other systems or suppliers. Any of the foregoing could result in a material adverse effect on the Company's business financial condition and results of operation.

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 caption "Election of Directors," appearing in the Proxy Statement, is incorporated herein by reference.

(b) IDENTIFICATION OF EXECUTIVE OFFICERS. The information under the headings "Executive Compensation and Other Information," appearing in the Proxy Statement, is incorporated herein by reference.

(C) COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT. The information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information under the headings "Executive Compensation and Other Information," appearing in the Proxy Statement, is incorporated herein by reference.

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

The information under the headings "Principal Stockholders and Common Stock Ownership of Certain Beneficial Owners and Management," appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information under the heading "Certain Transactions," appearing in the Proxy Statement, is incorporated herein by reference.

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 the Company are included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below:

	PAGE
Index to Consolidated Financial Statements	F-1
Report of Ernst & Young LLP, Independent Auditors	F-2
Consolidated Balance Sheets as of March 31, 1997 and 1998	F-3
Consolidated Statements of Operations for the years ended March 31, 1996, 1997 and 1998	F-4
Consolidated Statements of Stockholders' Equity for the years ended March 31, 1996, 1997 and 1998	F-5
Consolidated Statements of Cash Flows for the years ended March 31, 1996, 1997 and 1998	F-6
Notes to Consolidated Financial Statements	F-7

2. FINANCIAL STATEMENT SCHEDULES. The following financial statement schedule of the Company is included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below. All other schedules have been omitted because they are not applicable, not required, or the information is included in the consolidated financial statements of notes thereto.

	PAGE
Schedule II--Consolidated Valuation and Qualifying Accounts............	S-1

3. EXHIBITS.

3.1	Certificate of Incorporation of the Company filed as Exhibit 19.2 to the Company's Form 10-Q for the quarter ended September 30, 1987 and incorporated herein by reference.
3.2	Bylaws of the Company, as amended, filed as Exhibit 4.2 to the Company's Form S-1 filed July 6, 1993 and incorporated herein by reference.
4.1	Specimen of Class A Common Stock and Class B Common Stock certificates filed as Exhibit 4.3 to Amendment No. 1 filed September 30, 1993 to the Company's Form S-1 filed July 6, 1993 and incorporated herein by reference.
10.1	1981 Incentive Stock Option Plan and form of Stock Option Agreement, filed as Exhibit 4.1 to the Company's Form S-8 filed June 27, 1985 (Reg. No. 2-98656) (the "1985 Form S-8") and incorporated herein by reference.
10.2	1982 Nonstatutory Stock Option and Stock Appreciation Rights Plan and forms of Nonstatutory Stock Option and Stock Appreciation Rights Agreement, filed as Exhibit 4.2 to the 1985 Form S-8 and incorporated herein by reference.
10.3	1992 Incentive Stock Option Plan and forms of Incentive Stock Option Agreement and Nonstatutory Stock Option Agreement filed as Exhibit 4.1, 4.2 and 4.3, respectively, to the Company's Form S-8 filed March 10, 1993 (Reg. No. 33-59274) and incorporated herein by reference.
10.4	Profit Sharing Plan and Trust, filed as Exhibit 4.3 to Amendment No. 2 to the 1985 Form S-8 filed May 5, 1988 (Reg No. 2-98656) and incorporated herein by reference.
10.5	Form of Executive Deferral Plan between the Company and certain employees of the Company, filed as Exhibit 10.4 to the Company's Form 10-K for the year ended March 31, 1988 and incorporated herein by reference.
10.6	Second Amended and Restated Loan Agreement between Bank of the West and the Company entered into as of September 30, 1992, filed as Exhibit 10.6 to the Company's Form S-1 filed July 6, 1993 and incorporated herein by reference.
10.7	Loan and Security Agreement between ATL Products, Inc. and Bank of the West entered into as of February 26, 1993, filed as Exhibit 10.6 to the Company's Form S-1 filed July 6, 1993 and incorporated herein by reference.
10.8	Modification Agreement regarding the agreements referenced in Exhibits 10.6 and 10.7, as modified by the First Amendments to Modification Agreement from Bank of the West dated as of February 26, 1993 and August 9, 1993 filed as Exhibit 10.6 to the Company's Form S-1 filed July 6, 1993 and incorporated herein by reference.
10.9.1	Form of Indemnity Agreement entered into by the Company, and certain officers and directors, filed as Exhibit 19.4 to the Company's Form 10-Q for the quarter ended September 30, 1988 and incorporated herein

by reference.

10.9.2 Schedule of officers and directors covered by Indemnity Agreement filed as Exhibit 10.9.2 to Amendment No. 1 filed September 30, 1993 to the Company's Form S-1 filed July 6, 1993 and incorporated herein by reference.

10.10 Amendment Nos. 3 and 4 to the Profit Sharing Plan and Trust, filed as Exhibits 4.3.1 and 4.3.2 respectively, to Amendment No. 3 to the Company's 1983 Form S-8 (Reg. No. 2-86220) filed June 13, 1990 and incorporated herein by reference.

10.11 Lease between the Company and Roths Properties entered into as of November 1, 1990 filed as Exhibit 10.11 to the Company's Form S-1 filed July 6, 1993 and incorporated herein by reference.

10.12 Promissory Note in the original principal amount of $15,000,000 payable to The Northwestern Mutual Life Insurance Company ("NMLI") dated October 31, 1989 and related Deed of Trust, Security Agreement and Financing Statement between Odetics, Inc. and NMLI dated October 31, 1989 filed as Exhibit 10.12 to the Company's Form S-1 filed July 6, 1993 and incorporated herein by reference.

10.13 Separation and Distribution Agreement between the Company and ATL dated March 1, 1997, filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended March 31, 1997 as filed with the Commission on June 30, 1997 (the "1997 Form 10-K").

10.14 Tax Allocation Agreement between the Company and ATL dated March 1, 1997, filed as Exhibit 10.14 to the Company's 1997 Form 10-K.

10.15 Services Agreement between the Company and ATL dated March 21, 1997, filed as Exhibit 10.15 to the Company's 1997 Form 10-K.

10.16 Promissory Note between the Company and ATL dated April 1, 1997, filed as Exhibit 10.16 to the Company's 1997 Form 10-K.

10.17 Amendment Number Six to Loan and Security Agreement dated March 31, 1997 between the Company, Gyyr, Imperial Bank and Comerica Bank-California, filed as Exhibit 10.17 to the Company's 1997 Form 10-K.

10.18 1997 Stock Incentive Plan filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-44907) as filed with the Commission on January 26, 1998 (the "1998 Form S-8").

10.19 Form of Notice of Grant of Stock Option filed as Exhibit 99.2 to the Company's 1998 Form S-8.

10.20 Form of Stock Option Agreement filed as Exhibit 99.3 to the Company's 1998 Form S-8.

10.21 Form of Addendum to Stock Option Agreement (Involuntary Termination Following Corporate Transaction/Change in Control) filed as Exhibit 99.4 to the Company's 1998 Form S-8.

10.22 Form of Addendum to Stock Option Agreement (Limited Stock Appreciation Rights) filed as Exhibit 99.5 to the Company's 1998 Form S-8.

10.23 Form of Stock Issuance Agreement filed as Exhibit 99.6 to the Company's 1998 Form S-8.

10.24 Form of Addendum to Stock Issuance Agreement (Involuntary Termination Following Corporate Transaction/Change in Control) filed as Exhibit 99.7 to the Company's 1998 Form S-8.

10.25 Form of Notice of Grant of Automatic Stock Option (Initial Grant) filed as Exhibit 99.8 to the Company's 1998 Form S-8

10.26 Form of Notice of Grant of Automatic Stock Option (Annual Grant) filed as Exhibit 99.9 to the Company's 1998 Form S-8

10.27 Form of Automatic Stock Option Agreement filed as Exhibit 99.10 to the Company's 1998 Form S-8

21 Subsidiaries of the Company.

23.1 Consent of Independent Auditors.

27 Financial Data Schedule.

b. Reports on Form 8-K.

The Company filed a Current Report on Form 8-K dated October 31, 1997 was filed with the Securities and Exchange Commission reporting the Distribution of the Company's interest in ATL to the Company's stockholders, and the restatement of the Company's financial statements to reflect the operations of ATL as discontinued.

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 29, 1998.

ODETICS, INC.

By: /s/ Joel Slutzky
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 29, 1998
/s/ Crandall Gudmundson Crandall Gudmundson	Director	June 29, 1998
/s/ Jerry Muench Jerry Muench	Director	June 29, 1998
/s/ Kevin C. Daly	Director	June 29, 1998

Kevin C. Daly

/s/ Gary Smith Gary Smith	Vice President and Controller (principal accounting officer)	June 29, 1998
/s/ Ralph R. Mickelson Ralph R. Michelson	Director	June 29, 1998

SIGNATURE	TITLE	DATE
/s/ Leo Wexler Leo Wexler	Director	June 29, 1998
/s/ John Seazholtz John Seazholtz	Director	June 29, 1998
/s/ Paul E. Wright Paul E. Wright	Director	June 29, 1998
/s/ Gregory A. Miner Gregory A. Miner	Vice President, Director, Chief Operating Officer and Chief Financial (principal financial officer)	June 29, 1998

ODETICS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Auditors	F-2
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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, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 1998. 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 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, 1997 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1998, 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 4, 1998

ODETICS, INC.

CONSOLIDATED BALANCE SHEETS

	MARCH 31,	
	1997	1998
	(IN THOUSANDS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,865	$ 1,131
Trade accounts receivable, net of allowance for doubtful accounts of $350,000 in 1997 and $432,000 in 1998	17,127	15,048
Current portion of ATL note receivable (Note 4)	3,249	3,249
Receivable from ATL (Note 4)	2,148	1,553
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 5)	1,922	2,583
Inventories:		
Finished goods	498	569
Work in process	2,968	2,176
Materials and supplies	12,184	18,065

Prepaid expenses and other	978	1,592
Income taxes receivable	--	1,039
Deferred income taxes	547	1,558
Total current assets	43,486	48,563
Property, plant and equipment:		
Land	2,090	2,090
Buildings and improvements	17,642	18,481
Equipment	24,234	28,006
Furniture and fixtures	968	1,312
Allowances for depreciation	(23,824)	(26,550)
	21,110	23,339
Net assets of discontinued operations	8,723	--
Long term ATL note receivable less current portion (Note 4)	9,748	6,770
Goodwill, net of accumulated amortization of $306,000 in 1997 and $571,000 in 1998	169	5,850
Other assets	2,569	4,268
Total assets	$ 85,805	$ 88,790
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 8,802	$ 13,672
Accrued payroll and related	5,306	5,093
Accrued expenses	1,788	2,083
Income taxes payable	1,276	--
Contract loss accrual	--	4,541
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 5)	2,690	1,580
Current portion of long-term debt (Note 6)	1,721	1,598
Total current liabilities	21,583	28,567
Revolving line of credit	2,100	12,800
Long-term debt, less current portion (Note 6)	9,760	8,200
Deferred income taxes (Note 8)	534	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--5,315,653 of Class A and 1,064,241 of Class B at March 31, 1997; 6,202,778 of Class A and 1,062,041 of Class B at March 31, 1998.	638	726
Paid-in capital	$ 38,927	$ 45,240
Treasury stock, 0 and 50,000 shares in 1997 and 1998, respectively	--	(239)
Notes receivable from employees (Note 10)	--	(3,377)
Foreign currency translation	52	25
Retained earnings	12,211	(3,795)
Total stockholders' equity	51,828	38,580
Total liabilities and stockholders' equity	$ 85,805	$ 88,790

See accompanying notes.

ODETICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED MARCH 31,		
	1996	1997	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net sales and contract revenues:			
Net sales	$65,056	$71,748	$ 79,552
Contract revenues	10,161	9,032	10,284
	75,217	80,780	89,836
Costs and expenses:			
Cost of sales	44,535	48,507	55,227
Cost of contract revenues	4,374	4,907	6,430
Selling, general and administrative expenses	15,620	19,831	26,010
Research and development expenses	5,242	7,734	9,271
In process research and development	--	--	2,106
Nonrecurring charge (Note 7)	--	--	1,716
Interest expense, net	386	183	617
	70,157	81,162	101,377
Income (loss) from continuing operations before income taxes	5,060	(382)	(11,541)
Income taxes (benefit) (Note 8)	1,418	(181)	(2,858)
Income (loss) from continuing operations	3,642	(201)	(8,683)
Income (loss) from discontinued operations, net of income taxes	(1,189)	3,931	2,089
Net income (loss)	$ 2,453	$ 3,730	$ (6,594)
Basic earnings (loss) per share:			
Continuing operations	$ .60	$ (.03)	$ (1.26)
Discontinued operations	(.20)	.62	.31
Earnings (loss) per share	$ .40	$ .59	$ (.95)
Diluted earnings (loss) per share:			
Continuing operations	$ .59	$ (.03)	$ (1.26)
Discontinued operations	(.19)	.62	.31
Earnings (loss) per share	$ .40	$ .59	$ (.95)

See accompanying notes.

ODETICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

COMMON STOCK
SHARES

	OUTSTANDING CLASS A COMMON STOCK	OUTSTANDING CLASS B COMMON STOCK	AMOUNT	PAID-IN CAPITAL	TREASURY STOCK	NOTE RECEIVABLE FROM EMPLOYEES	FOREIGN CURRENCY TRANSLATION	RETAINED EARNINGS	TOTAL
					(IN THOUSANDS)				
Balance at March 31, 1995	4,787	1,161	$595	$21,067	$ --	$ --	$ 46	$ 6,028	$ 27,736
Issuances of common stock (Notes 9 and 10)	148	--	15	837	--	--	--	--	852
Foreign currency translation adjustments	--	--	--	--	--	--	(56)	--	(56)
Net income	--	--	--	--	--	--	--	2,453	2,453
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 2)	--	--	--	14,455	--	--	--	--	14,455
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	51,828
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 2)	--	--	--	(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)	$ 38,580

See accompanying notes.

ODETICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED MARCH 31, 1996	1997	1998
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income (loss)	$ 2,453	$ 3,730	$ (6,594)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
(Income) loss from discontinued operations	1,189	(3,931)	(2,089)

Depreciation and amortization	2,244	3,119	2,912
Write-off of in process research and development	--	--	2,106
Contribution to ASOP	430	517	511
Provision for losses on accounts receivable	170	277	155
Provision (benefit) for deferred income taxes	76	266	(902)
Gain on sale of assets	314	377	16
Net proceeds from settlement of litigation (Note 11)	--	5,860	--
Foreign currency translation gain	(56)	62	(27)
Changes in net assets of discontinued operations	86	1,291	--
Changes in operating assets and liabilities (Note 13)	2,875	(7,464)	(3,989)
Net cash provided by (used in) operating activities	9,781	4,104	(7,901)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(3,038)	(3,307)	(3,834)
Proceeds from sale of equipment	74	12	5
Purchase of net assets of acquired business	--	--	(2,171)
Net cash (paid to) received from ATL	(3,232)	8,066	2,978
Net cash provided by (used in) investing activities	(6,196)	4,771	(3,022)
FINANCING ACTIVITIES			
Proceeds from line of credit and long-term borrowings	36,152	54,840	49,176
Principal payments on line of credit, long-term debt, and capital lease obligations	(39,395)	(65,069)	(40,159)
Proceeds from issuance of common stock	422	2,078	1,172
Net cash provided by (used in) financing activities	(2,821)	(8,151)	10,189
Increase in cash	764	724	(734)
Cash and cash equivalents at beginning of year	377	1,141	1,865
Cash and cash equivalents at end of year	$ 1,141	$ 1,865	$ 1,131

See accompanying notes.

ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1998

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, Ltd., Odetics Asia and Pacific Pte Ltd. During fiscal 1990, the Company incorporated Odetics Europe, Ltd. 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.

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, inventory reserves and costs to complete long-term contracts.

REVENUE RECOGNITION

Contract revenues and earnings on long-term cost-reimbursement and fixed-price contracts of the Company's Communication and Intelligent Transportation Divisions 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.

For all other divisions, 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.

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.

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.

The Company reviews, long-lived assets and certain intangibles held and used

by the Company 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 at which undiscounted net cash flows can be directly attributable to long-lived assets.

GOODWILL

Goodwill 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 years is assigned to capitalized software development costs.

During fiscal 1996, 1997 and 1998, software development costs were amortized to cost of sales totaling $212,000, $473,000, and $585,000, respectively. The net unamortized balances of $1,843,000 and $3,785,000 are classified in other assets at March 31, 1997 and 1998, respectively.

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

FOREIGN CURRENCY TRANSLATION

The balance sheet accounts of Odetics Europe, 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

During fiscal 1998 the Company adopted the provisions of FASB Statement No. 128, Earnings Per Share (Statement No. 128) and the accounting rules set forth in staff Accounting Bulletin 98 issued by the Securities and Exchange Commission on February 3, 1998. Under Statement No. 128, 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 per share for all periods presented have been restated to conform with the provisions of Statement No. 128.

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

	YEARS ENDED MARCH 31,		
	1996	1997	1998
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Numerator:			
Income (loss) from continuing operation.	$ 3,642	$ (201)	$ (8,683)
Income (loss) from discontinued operations	(1,189)	3,931	2,089
Net income (loss)	$ 2,453	$ 3,730	$ (6,594)
Denominator for basic earnings (loss) per common share	6,020,000	6,299,000	6,912,000
Effect of dilutive securities:			
Stock options	159,000	--	--
Denominator for diluted earnings (loss) per common share	6,179,000	6,299,000	6,912,000

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.

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 option, 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 totaled $578,000, $1,020,000 and $2,226,000 in the years ended March 31, 1996, 1997 and 1998, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued Statement No. 130, Reporting Comprehensive Income, which establishes standards for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income generally represents all changes in shareholders' equity except those resulting from investments by distributions to shareholders. Statement No. 130 is effective for fiscal years beginning after December 15, 1997 and requires restatement of earlier periods presented.

Also in June 1997, the FASB issued Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, which requires publicly-held companies to report financial and descriptive information about its operating segments in financial statements issued to shareholders for interim and annual periods. The statement also requires additional disclosures with respect to products and services, geographical areas of operations, and major customers. Statement No. 131 is effective for fiscal years beginning after December 15, 1997 and requires restatement of earlier periods presented.

RECLASSIFICATIONS

Certain amounts in the 1996 and 1997 consolidated financial statements have been reclassified to conform with the 1998 presentation.

2. 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 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.

Following the spin-off, the Company has accounted for ATL as a discontinued operation and has presented its ownership interest in the results of ATL's operations for all periods as a separate component of the consolidated statements of operations. Net sales of ATL for fiscal 1996, 1997 and for the seven month period ending October 31, 1997 are $29.4 million, $60.0 million and $47.4 million, respectively.

3. ACQUISITIONS

On June 20, 1997, the Company acquired certain assets and assumed certain liabilities of the Transportation Systems business of Rockwell International (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. Assets with a fair value of $1.3 million were acquired and $5.0 million of liabilities were assumed. 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, 1998, 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.

Pro forma results of operations combining the results of the Company and ICI for fiscal 1997 and 1998 are not presented since such amounts are not materially different from the Company's reported results.

4. TRANSACTIONS WITH 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 bears interest at a rate equal to the Company's cost of borrowing (8.5% at March 31, 1998). Principal and interest on the note are payable to the Company in quarterly installments of $3.3 million through fiscal 2001.

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 1997 and $1.6 million in 1998. The tax sharing agreement was canceled upon the spin-out of Odetics remaining interest in ATL in October 1997.

The Company and ATL are parties to an agreement whereby ATL is charged for certain corporate general and administrative functions performed by the Company. These charges totaled $1,534,000, $1,551,000 and $506,000 in the years ended March 31, 1996, 1997 and 1998, respectively, and are netted against general and administrative expense in the accompanying consolidated statements of operations. These charges consist of certain accounting, auditing, income tax, payroll and treasury functions, the administration of employee incentive programs, marketing support, facilities management, certain legal services and other support services. Charges were allocated to ATL based on actual amounts incurred or agreed upon amounts or percentages that management of the Company believes are reasonable. Amounts due from ATL that are included in accounts receivable are $509,000 and $49,000 as of March 31, 1997 and 1998, respectively.

5. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

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

	MARCH 31,	
	1997	1998
	(IN THOUSANDS)	
Costs incurred on uncompleted contracts	$17,483	$22,861
Estimated earnings	1,848	1,903
	19,331	24,764
Less billings to date	20,099	23,761
	$ (768)	$ 1,003
Included in accompanying balance sheets:		
Costs and estimated earnings in excess of billings on		

uncompleted contracts	$ 1,922	$ 2,583
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,690)	(1,580)
	$ (768)	$ 1,003

Costs and estimated earnings in excess of billings at March 31, 1997 and 1998 include $279,000 and $740,000, 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 with a bank which provides for borrowings generally at the lesser of the bank's prime rate (8.5% at March 31, 1998) or the bank's LIBOR rate plus 2.25%. Borrowings are available for general working capital purposes, and at March 31, 1998, approximately $3.9 million was available for borrowing under the line. The line expires August 31, 1999.

The revolving credit agreement is collateralized by substantially all of the Company's assets, excluding the land and buildings. Under the terms of the agreement, the Company is required to comply with certain covenants, maintain certain debt to net worth ratios, current ratios and minimum net worth requirements. At March 31, 1998, the Company was in violation of certain financial ratio covenants. The bank has waived compliance with those covenants at March 31, 1998, and the covenants are expected to be modified to allow the Company to be in compliance with the requirements of the revolving credit agreement in future periods.

Included within the borrowing limits of the agreement, the Company has available approximately $14,900,000 in letters of credit and approximately $300,000 has been reserved for standby letters of credit at March 31, 1998.

Long-term debt consisted of the following:

	MARCH 31,	
	1997	1998
	(IN THOUSANDS)	
Note payable, collateralized by deed of trust on land and buildings with a net book value of approximately $13,000,000, payable in monthly installments through the year 2004, including interest at 9.36%	$10,171	$9,218
Notes payable, collateralized by equipment, payable in monthly installments through March 1999, including interest at 6.95% to 9.0%	1,310	580
	11,481	9,798

Less current portion	1,721	1,598
	$ 9,760	$8,200

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

	(IN THOUSANDS)
1999	$1,598
2000	1,146
2001	1,261
2002	1,383
2003	1,518
Thereafter	2,892
	$9,798

7. NONRECURRING CHARGE

In March 1998, the Company recorded a nonrecurring charge of $1.7 million. The charge reflects severance costs related to retirement of certain of the Company's founders and officers, and to a lesser extent, costs incurred to terminate a joint venture relationship in China.

8. INCOME TAXES

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

	YEAR ENDED MARCH 31,		
	1996	1997	1998
	(IN THOUSANDS)		
Income tax (benefit) at statutory rates	$1,345	$(130)	$(3,915)
Acquired in process research and development	--	--	715
State income taxes, net of federal tax benefit	244	(22)	189
Decrease of valuation allowance associated with federal deferred tax assets	(326)	(99)	(175)
Foreign losses recorded without benefit	80	--	118
Foreign income at lower tax rate	--	--	15
Nondeductible goodwill amortization	7	7	11
Other	68	63	184
	$1,418	$(181)	$(2,858)

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

	YEAR ENDED MARCH 31,		
	1996	1997	1998
	(IN THOUSANDS)		
Pretax income (loss):			
Domestic	$4,556	$(372)	$ (9,726)
Foreign	504	(10)	(1,815)
	$5,060	$(382)	$(11,541)

Significant components of the provision (benefit) for income taxes from continuing operations are as follows:

	YEAR ENDED MARCH 31,		
	1996	1997	1998
	(IN THOUSANDS)		
Current:			
Federal	$ 220	$ (347)	$(1,143)
State	463	(145)	(328)
Tax benefit from stock option exercises	(31)	(801)	(300)
Foreign	659	45	(485)
Total current	1,311	(1,248)	(2,256)
Deferred:			
Federal	194	350	(1,516)
State	(118)	(84)	614
Total deferred	76	266	(902)
Charge in lieu:			
Credit to additional paid-in capital attributable to stock option exercises	31	801	300
	$1,418	$ (181)	$(2,858)

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

	1997	1998
	(IN THOUSANDS)	
Deferred tax assets:		

Inventory reserves	$ 530	$ 979
Deferred compensation and other payroll accruals	1,848	2,077
Acquired net operating loss carryforwards	--	217
General business tax credit carryforwards	322	951
Alternative minimum tax credit carryforwards	883	404
Bad debt reserve	149	185
Other reserves	749	328
Other, net	71	338
Total deferred tax assets	4,552	5,479
Valuation allowance for deferred tax assets	(1,351)	(1,490)
Net deferred tax assets	3,201	3,989
Deferred tax liabilities:		
Tax over book depreciation	2,690	2,576
Capitalized interest and taxes	468	468
Other, net	30	30
Total deferred tax liabilities	3,188	3,074
Net deferred tax assets	$ 13	$ 915

At March 31, 1998, for federal income tax purposes, the Company had approximately $951,000 in general business credit carryforwards, $404,000 of alternative minimum tax credit carryforwards, and $640,000 of net operating loss carryfowards which were acquired as part of the ICI acquisition. For financial reporting purposes, a valuation allowance has been recorded to substantially offset the deferred tax asset related to these credits and acquired 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. The credit carryforwards expire at various dates beginning in 2005 and the acquired net operating losses begin expiring in 2002.

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 1996, 1997 or 1998.

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, 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 $580,000, $525,000 and $548,000 in 1996, 1997 and 1998, 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 $430,000, $517,000 and $511,000 in 1996, 1997 and 1998, 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 for shares have been granted at prices ranging from $4.25, to $9.90 for one share of Class A common stock. 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. Options for shares of both the Company's unissued Class A and Class B common stock had been granted to directors and associates of the Company and such options expired in 1994.

	YEAR ENDED MARCH 31,					
	1996		1997		1998	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
Options outstanding at beginning of year..........	627	$6.85	691	$5.32	640	$6.41
Granted..................	381	4.72	183	9.17	502	4.63
Exercised................	(70)	4.76	(217)	5.41	(578)	4.79
Canceled.................	(247)	8.43	(17)	4.43	(1)	5.99
Options outstanding at end of year....................	691	$5.32	640	$6.41	563	$4.67
Exercisable at end of year..	288		308		--	
Available for grant at end of year....................	520		164		157	
Option price range for exercised shares:	$4.25 to $6.625		$4.25 to $9.00		$4.88 to $9.90	

The range of exercise prices for options outstanding as of March 31, 1998, was $4.63 to $5.09. The weighted-average remaining contractual life and exercise price of those options is 9.83 years and $4.67, respectively.

In connection with the completed spin-off of the Company's interest in ATL, the Company accelerated the exercisability of all stock options then outstanding and made secured loans to option holders to facilitate the exercise of the options. Loans were made in amounts up to the exercise price of their options, which totaled $3.4 million. These notes are full recourse, are secured by the 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 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 common stock of .40; and a weighted-average expected life of the option of 7 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 and 1998 follows:

	1996	1997	1998
Pro forma net income....................	$2,252,000	$3,441,000	$(7,084,000)
Pro forma net income per share...........	$ .36	$ .55	$ (1.03)

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 $302,000, $410,000 and $302,000 for 1996, 1997 and 1998, respectively.

11. COMMITMENTS AND CONTINGENCIES

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, the jury determined that the patent claims were not infringed under the doctrines 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. 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, the jury awarded the Company damages in the amount of $70.6 million. Defendants have indicated they intend to appeal. The accompanying financial statements do not include any amounts related to the Company's potential revenues related to the verdict.

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

The Company has two lease commitments for facilities in Washington and Michigan as a result of two acquisitions in the current fiscal year. The annual commitment under these noncancelable operating leases at March 31, 1998 is as follows (in thousands):

FISCAL YEAR	
1999	$229
2000	185
2001	64
	$478

12. SEGMENT AND SIGNIFICANT CUSTOMER INFORMATION

The Company operates in one industry segment whereby it focuses on information automation through its design, development, manufacturing and marketing of subsystems and other products for specialized information automation applications. The Company's principal products include magnetic tape cartridge and cassette handling subsystems for automated tape library systems used in computer mass data storage applications; large-library cart machines used in broadcast and cable television station operations; time-lapse VCRs and related products used in commercial and industrial closed circuit television security and surveillance applications; and space-qualified digital data recorders used in manned and unmanned space vehicles.

The Company manufactures and sells its products to commercial customers in diversified industries as well as to prime government contractors under long-term contracts. The percentage of the Company's total net sales and contract revenues contributed by direct and indirect sales to the United States and foreign governments were approximately 10%, 11% and 12% during 1996, 1997 and 1998, respectively.

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, 1997 and 1998, accounts receivable from governmental agencies and prime government contractors were approximately $1,034,000 and $2,801,000, respectively.

Information concerning the Company's continuing operations by geographic segment is as follows:

	YEAR ENDED MARCH 31,		
	1996	1997	1998
Sales to unaffiliated customers:			
United States (a)	$64,317	$72,780	$ 83,615
Europe--Odetics Europe, Ltd	7,833	4,494	5,442
Asia Pacific--Odetics Asia Pacific Pte Ltd	3,067	3,506	779

	$75,217	$80,780	$ 89,836
Sales between geographic areas (based on invoiced prices):			
United States	$ 5,582	$ 4,418	$ 4,197
Europe	--	--	--
Asia Pacific	--	--	--
Intercompany eliminations	(5,582)	(4,418)	(4,197)
	$ --	$ --	$ --
Income (loss) before taxes:			
United States	$ 4,556	$ (372)	$ (9,726)
Europe	739	(444)	(1,469)
Asia Pacific	(235)	434	(346)
Intercompany eliminations	--	--	--
	$5,060	$ (382)	$(11,541)
Assets:			
United States, including net assets of discontinued operations	$67,271	$81,711	$ 85,492
Europe	5,002	2,118	3,085
Asia Pacific	740	1,976	213
Intercompany eliminations	--	--	--
	$73,013	$85,805	$ 88,790

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(a) Export sales from the United States to all unaffiliated foreign customers (which excludes sales to and by Odetics Europe, Ltd. and Odetics Asia Pacific Pte Ltd.) were approximately $12,000,000, $21,000,000 and $24,000,000 during 1996, 1997 and 1998, respectively. These sales were principally made to customers in Europe and the Pacific Rim.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	YEAR ENDED MARCH 31,		
	1996	1997	1998
	(IN THOUSANDS)		
Net cash used in changes in operating assets and liabilities, net of litigation settlement and acquisitions:			
Increase in accounts receivable	$(1,382)	$(4,511)	$ 2,689
(Increase) decrease in net costs and estimated earnings in excess of billings	1,167	(1,217)	(1,771)
(Increase) decrease in inventories	2,485	401	(4,604)
Increase in prepaids and other assets	(936)	(4,060)	(2,883)
Increase (decrease) in accounts payable and accrued expenses	1,541	1,923	2,580
Net cash used in changes in operating assets			

and liabilities	$ 2,875	$(7,464)	$(3,989)
Cash paid during the year:			
Interest	$ 2,415	$ 1,888	$ 1,526
Income taxes paid (refunded)	(133)	975	365
Noncash transactions during the year:			
Spin-off of ATL Products, Inc.	$ --	$ --	$11,067
Purchase of net assets of ICI for stock	--	--	628

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

ODETICS, INC.

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO ACCOUNTS--DESCRIBE	DEDUCTIONS--DESCRIBE	BALANCE AT END OF PERIOD
Year ended March 31, 1996:(1)					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 327,000	$ 132,000	$--	$133,000(2)	$ 326,000
Reserve for inventory obsolescence	2,099,000	--	$--	288,000	1,811,000
Total	$2,426,000	$ 132,000	$--	$421,000	$2,137,000
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(2)	$ 432,000
Reserve for inventory obsolescence	2,437,000	1,240,000	--	796,000	2,881,000
Total	$2,787,000	$1,395,000	$--	$869,000	$3,313,000

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(1) Amounts have been restated to reflect the continuing operations of the Company, excluding the accounts of ATL Products, Inc.

(2) Uncollectible accounts written off, net of recoveries.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-3 Nos. 33-63983 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 4, 1998, 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, 1998.

/s/ Ernst & Young LLP

Orange County, California
June 26, 1998

EXHIBIT 21

LIST OF SUBSIDIARIES

NAME OF ENTITY	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	OWNERSHIP INFORMATION
Odetics ITS, Inc. (formerly known as Centro Corporation).......	California	100% owned
Gyyr, Inc....................................	California	100% owned
Odetics Europe Limited........................	England and Wales	100% owned
Odetics Asia Pacific Pte. Ltd.................	Singapore	100% owned
Odetics International Sales Corporation........	California	100% owned

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<MULTIPLIER> 1,000

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<FISCAL-YEAR-END>	MAR-31-1996	MAR-31-1997	MAR-31-
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<SALES>	65,056	71,748	79
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<CGS>	44,535	48,507	55
<TOTAL-COSTS>	48,909	53,414	61
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